EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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D 8523A

ETHIOPIA

Addis Ababa awaits the violent night

Page 4

World News

Relief that France will not revive intervention

France's industrial competitors are relieved at evidence that the new French government will not revive industrial intervention, despite the shift to the left marked by the arrival of Mrs Edith Cresson as prime minister. Page 18

Right wins election

South Africa's right-wing Conservative Party won a by-election victory in Orange Free State in what political analysts described as a sign of bloody confrontation to come. Page 4

Poll against whaling

Most people in Japan, a leading whaling nation, favour an end to the slaughter of the mammals, according to an opinion poll by Nippon Gallup.

General killed

Gunmen killed a retired Turkish army general in Ankara and wounded another and his driver in the southern city of Adana in the latest of dozens of political attacks.

Soviet no more

The republic of Moldavia has dropped the words Soviet and Socialist from its name to show its growing independence. Border posts blaze, Page 3

Friendship plea

Argentina's ambassador in Britain called for restoration of links between his country and the Falklands which were cut after the 1982 war.

Abortion ban upheld

The US Supreme Court upheld by five votes to four regulations that bar federally-funded clinics from giving patients abortion advice, a victory for abortion opponents.

Rabbi blames Israel

Britain's Chief Rabbi Immanuel Jakobovits attacked Israel for "lording it" over the Palestinians, saying their legitimate aspirations could not be denied for ever.

Envoy recalled

The Ethiopian Embassy in Zimbabwe said Ambassador Asrat Wolde, who met ousted president Mengistu Haile Mariam when he fled to Harare, had been recalled to Addis Ababa. Violence by night, Page 4

Wine crop damaged

An unseasonable frost last month destroyed 90 per cent of the wine crop of the Jura region of eastern France, the equivalent of 80,000 bottles, the National Office of Wine Professionals said.

EC agrees food aid

The European Community finally agreed terms with Moscow on the delivery of Ecu250m ($298m) worth of free food to the poor and needy in the Soviet Union. Page 3

Lebanese offer

The newly elected leader of Hezbollah said in Beirut that his group is willing to swap Israeli prisoners for Shiite Moslem detainees, a deal that might help free westerners.

Lubbers apology

Dutch Prime Minister Ruud Lubbers said he had recently received an apology from a man who nearly stabbed him two years ago.

Business Summary

Bush beats move to block Gatt talks

The Bush Administration narrowly beat off an attempt in the US House of Representatives to deny the president the vital authority he needs to continue negotiations in the Uruguay Round and to launch talks for a North American Free Trade Agreement with Mexico and Canada. Page 18

FIAT, Italian automotive and industrial group, reached preliminary agreement with the Soviet Union to take a 30 per cent stake in VAZ, (Volski Automobilnij Zavod) producer of Lada cars and country's biggest carmaker. Page 18

UK: Bank of England money market operations fuelled speculation that the government could be planning to cut bank base rates to 11.5 per cent today to give the economy an added boost. Page 18

KUMAGAI Gumi of Japan, one of the world's largest construction companies, said pre-tax profits could fall by 10 per cent this year due to downturn in the Japanese property market. Page 19

BT, telecommunications operator and UK's largest private company said there was no sign of recession easing despite 14 per cent profits increase to more than £3bn ($5.2bn). Page 19; Lex, Page 18

AGF, French state-owned insurance group, is buying 24 per cent of La Union y El Fenix, one of Spain's biggest insurance companies, from its owners, the independent Spanish commercial bank, Banesto. Page 19

HONDA Motor, Japanese car maker, reported a sharp fall in profits in the final quarter as US sales proved sluggish, the domestic market turned soft, and selling expenses increased. Page 22

KLOCKNER-Humboldt-Deutz, German engineering company, announced it was feeling the effects of economic weakness in foreign markets. Page 19

JAPAN'S four leading property and casualty insurers posted lower profits despite rises in premium revenues as higher vehicle repair and natural disaster payments took their toll. Page 22

WHITBREAD, brewer and retailer, showed resilience in tough trading conditions with a 9.7 per cent increase in profits to £291.5m ($503.2m). Page 20; Lex, Page 18

IBM - International Business Machines - the world's largest computer manufacturer, is taking increasingly profound steps to combat the deep structural changes in the worldwide computer. Page 23

AT&T, American Telephone & Telegraph, seems to be close to leasing its eight-year-old headquarters in New York - one of the city's most debated pieces of modern architecture - to Sony, Japanese electronics group. Page 23

BHF-BANK in Frankfurt is arranging a DM150m ($87.7m) private placement with German investors to refinance a public bond issue made in 1984 by the South Africa Department of Post and Telecommunications. Page 24

CIA 'allowed illegal export of US missile secrets'

By Alan Friedman, Lionel Barber, Tom Flannery and Eric Reguly in Washington

US ballistic missile technology and military equipment was shipped illegally to South Africa between 1984 and 1988 with the full knowledge of the Central Intelligence Agency, according to American officials.

The US officials say they have "good reason" to believe that some of the US ballistic missile technology was sent on from South Africa to Iraq.

The officials say this technology found its way into Iraqi projects to build the Hakim medium-range missile and the uncompleted Condor 2 nuclear-capable missile.

According to these officials, the CIA did nothing to halt the shipments to South Africa, which violated federal export law and the US embargo on the sale of military goods to South Africa.

The missile technology sales to South Africa, which continued until November 1988, were made by International Signal and Control, according to former *ISC* executives and Department of Justice and Pentagon officials.

The sales continued after the company was bought by Ferranti, the UK defence contractor, for $700m in 1987. ISC was later at the centre of an alleged fraud involving fictitious contracts which brought Ferranti to the brink of bankruptcy.

US federal law enforcement officials have told a joint Financial Times and ABC News/Nightline investigation that the illegal shipments to South Africa included equipment which could be used to develop a missile capable of carrying nuclear warheads.

The technology shipped by ISC to South Africa included photo-imaging equipment used to determine the performance of missile tests, telemmetry tracking equipment used to receive signals from missiles and gyroscopes used in the inertial navigation (or guidance) systems of missiles.

The illegal missile technology shipments to South Africa and other violations are expected to result in indictments in the next few weeks according to Department of Justice officials.

Ferranti executives believe that ISC was involved in the illegal shipment of military technology to South Africa. However, they reject suggestions that the company was working with the CIA.

Ferranti executives deny any knowledge of ISC shipments to South Africa after the merger of the two companies in 1988.

Separately British sources have confirmed that, in early 1989, officials discovered that South Africa was involved in the development of sophisticated air-to-ground missiles which ISC was due to deliver to Abu Dhabi.

According to a senior official concerned at the time, the £300m deal was blocked after London intervened with the Abu Dhabi authorities.

The deal involved ISC's UK operations and had initially received British government clearance. But the official said the missiles, for use on Mirage fighters, were of a capability far beyond what Abu Dhabi would normally be expected to require. South Africa was working on development of the missiles for its own use and for sale abroad, the official said.

Other technology shipments from ISC - not necessarily sent with CIA knowledge - indirectly helped Iraq to build a cluster bomb factory and also bolstered Baghdad's anti-aircraft radar systems, according to US officials who have been investigating the ISC affair.

It remains unclear why the CIA failed to intervene to halt the shipments. Some US officials have suggested that the shipments were an elaborate method of infiltrating the South African missile programme and that CIA may have wished to protect overseas operatives who were tracking the exports.

Copies of invoices, contracts

Continued on Page 18

Saddam's South African connection, Page 6

Sonia Gandhi refuses leadership

By David Housego in New Delhi

DEEP divisions within the Indian Congress party over a successor to Mr Rajiv Gandhi came into the open yesterday when Mrs Sonia Gandhi, his widow, declined to take over as party president.

Mrs Gandhi had been selected as the new party president on Wednesday by a small group of Mr Gandhi's close associates in a move calculated to win sympathy votes in the aftermath of her husband's assassination.

Her refusal to accept the post leaves a vacuum with no strong contenders for the leadership.

However, it seemed last night that one possible choice for party leader could be Mr P.V. Narasimha Rao, 70, who was foreign minister under Mr Gandhi and had previously held a number of cabinet posts.

Mrs Gandhi said that her reasons for refusing the presidency were personal: "The tragedy that has befallen my children and myself does not make it possible for me to accept the presidency of the Congress."

Mrs Gandhi had also come under strong pressure from a number of senior party leaders, including Mr Sharad Pawar, the chief minister of Maharashtra, not to accept the post.

They had been angered that they had not been consulted over the choice of Mrs Gandhi for the leadership.

They also felt that the fact that Mrs Gandhi is an Italian-born Christian could bring the Congress under attack from the Hindu revivalist Bharatiya Janata party – its main opponent in the current general election.

After a first round of voting at the weekend, voting has still to take place in more than 300 of the 510 constituencies being contested.

The confusion over the Congress leadership emerged as fears of widespread violence in the wake of Mr Gandhi's death receded. Most large cities returned to normal although the army continued to patrol in Delhi and other sensitive towns.

Troops and paramilitary forces were being drafted into the capital to provide security protection for the large number of foreign dignatories, including Prince Charles, the Prince of Wales, expected for the funeral of Mr Gandhi today.

Indian police believe that Mr Gandhi was killed by a woman on a suicide mission who had explosives and a battery charger strapped to her body when she stepped forward to present him with flowers at an election rally in Tamil Nadu.

While Tamil militant groups hostile to Mr Gandhi remain the leading suspects, police were yesterday broadening their inquiries.

With all the leading political parties protesting about the length of the postponement of the last two days of polling – from Thursday and Sunday to June 12 and 15 – the election commissioner said he was reviewing requests to bring the polling dates forward.

Senior Congress leaders – feeling that early polling would win them a larger sympathy vote – have proposed that the poll should be brought forward to June 2 and 5.

Fearing that the poll could result in further violence and a parliament in which there is no clear majority, India's President R. Venkataraman has proposed that a national government be formed and that, possibly, the election should be cancelled. These ideas have, however, been rejected by the major parties.

Sonia Gandhi arriving at the official laying in state of her husband yesterday

A Congress party spokesman gave no indication of when the party's policy-making body would meet to elect a new leader. He said that the working committee would meet at "an appropriate time" to review the situation.

The manoeuvre to elect Mrs Gandhi as party president seems to have been based on an attempt to avoid quarrels within the party and provide a leader they could manipulate. Among the prime movers was Mr R. K. Dhawan, who had also managed Mrs Gandhi's private affairs.

It remains uncertain whether Mrs Gandhi was consulted in advance or whether the decision had been "communicated" to her as the party spokesman said.

Suicide woman leaves few clues, Page 4

Tetra Pak gains EC approval to bid for Alfa-Laval

By Andrew Hill in Brussels

BRUSSELS yesterday told Tetra Pak, the Swiss liquid packaging group, it could proceed with its SKr16.25bn ($2.65bn) bid for Alfa-Laval, the Swedish dairy and food processing equipment company, which has been held in limbo since February.

Yesterday's announcement that the suspension of the Alfa-Laval bid has been lifted means that the deal has won unconditional approval, although the news caused initial confusion at Tetra Pak and in Stockholm, where Alfa-Laval's shares are quoted.

A European Community (EC) official said formal approval might not come until July. "But the Commission sees no point in holding back the merger when to all intents and purposes there's no problem with it: delay would be expensive and cause bad feelings."

The in-depth inquiry into the bid, launched by the EC's merger-control task force in March, was the first investigation of a deal between two groups based outside the EC. It comes hard on the heels of Wednesday's bargain with Fiat of Italy, which was told by the Commission that it had to reduce its stake in a French car-battery producer if it wanted to merge its battery subsidiary with that of French group Alcatel-Alsthom.

Mr Bertil Hagman, Tetra Pak's president and chief executive, yesterday praised the

Continued on Page 18

K-111 BUYS MEDIA INTERESTS

News Corp agrees $650m sale of US magazines to KKR arm

By Alice Rawsthorn in London and Karen Zagor in New York

NEWS Corporation, Mr Rupert Murdoch's heavily indebted media group, yesterday agreed terms for the $650m sale of part of its US magazine interests and confirmed that it was in discussions over the sale of other businesses.

The magazines – which include Racing Form, Soap Opera Weekly, Seventeen, Soap Opera Digest and New Woman – have been sold to K-111, the publishing company controlled by Kohlberg Kravis Roberts, the investment banking business which is one the most powerful takeover players in the US.

News Corp, which earlier this year completed an emergency $7.6bn financial restructuring programme, is trying to raise money to meet the capital repayments on its debt.

It said yesterday it was in negotiation with potential purchasers over further disposals. News Corp refused to comment on speculation that it was discussing the sale of its commercial printing interests in Australia.

The proceeds of the K-111 deal, which will produce $600m in cash payment and $50m in defered cash payments, will go towards the $800m that News Corp has to pay its banks by next February as the first tranche of its $2bn capital repayment programme. News Corp then has to make three subsequent payments of $400m at six monthly intervals.

The acquisition will turn K-111 – which is also involved with educational books, trade magazines and data bases – into a substantial player in the US. Its revenues will increase from $500m to around $800m.

A source close to the deal said KKR, which holds a 75 per equity stake in K-111, will provide 40 per cent of the $650m in cash or equivalents. The remaining 60 per cent will be raised from bank debt.

However KKR is not involved in the day-to-day management of K-111, which is headed by Mr Willaim Reilly, former president of the Macmillan publishing group. K-111 plans to run the Murdoch magazines as a stand-alone group of consumer publications.

Mr Reilly said there were no plans to change the editorial policies of the magazines. "We intend to build on this base through future acquisitions and start-ups as we have done with our other companies," he said.

News Corp is believed to have initially offered to sell nine magazines – including Mirabella, its loss-making women's monthly, but not the profitable Racing Form – to K-111 for a lower price.

However K-III came back with a higher bid if Racing Form was substituted for Mirabella.

News Corp said yesterday it was committed to supporting Mirabella in the US.

However it recently announced the closure of the recently launched UK edition.

News Corp also plans to keep TV Guide, the US television listings magazine.

Weekend FT

Tomorrow: François Spoerry, creator of the lagoon city and apostle of gentle architecture

●

Crete: island of the indomitable

CONTENTS

Spanish elections: Socialist rhetoric may still carry the rural vote 2

World Trade: Talking gets tough in US-Japan trade talks 5

Technology: How to stop a runaway computer development project 14

UK elections: The answer lies as usual in the home loan interest rate 17

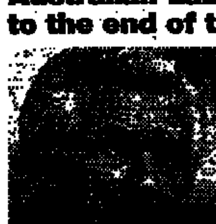
Lex: UK trade figures; British Telecom; Hong Kong; brewers 18

International banking: How can so much be going wrong at once? ..... Section III

Pulp and paper: Era of opportunity crumples into disillusion ..... Section IV

Europe	2,3	Britain	9,10	Editorial Comment	18	Observer	18
Companies	19,22	Companies	25-27	Financial Futures	38	Stock Markets	29-40
America	6	Arts Guide + Reviews	15	Gold	28	-London	29-31
Companies	19,20	Commercial Law	14	Intl. Capital Markets	24	Technology	14
International	4	Commodities	28	Letters	17	Unit Trusts	32-35
Companies	19,23	Crossword	36	Lex	18	World Index	40
World Trade	5	Currencies & money	36	Management	12		

Australian Labor Party rides to the end of the wave



Bob Hawke, Australian prime minister, is always at his most dangerous when his opponents think he is beaten. But there are signs that the public's long love affair with his Labor Party is coming to an end

Page 16

MARKETS

STERLING
New York lunchtime:
$1.7355
London:
$1.735 (1.7265)
DM2.975 (2.9725)
FFr10.1025 (10.0825)
SFr2.525 (2.52)
Y239 (238.3)
£ Index 92 (91.9)

GOLD
New York: Comex Jun
$355.5 (358.8)
London:
$355.55 (356.3)

N SEA OIL (Argus)
Brent Jul
$19.25 (19.175)

Chief price changes yesterday: Page 19

DOLLAR
New York lunchtime:
DM1.71295
FFr5.818
SFr1.4569
Y137.865
London:
DM1.714 (1.7215)
FFr5.8225 (5.845)
SFr1.456 (1.4595)
Y137.7 (138)
$ Index 66 (66.1)
Tokyo close: Y137.95

US lunchtime rates
Fed Funds $5\frac{5}{8}$%
3-mo Treasury Bills:
yield: 5.54%
Long Bond:
$98\frac{1}{4}$
yield: 8.28%

STOCK INDICES
FT-SE 100:
2,482.8 (+16.9)
FT Ordinary:
1,945.4 (+12)
FT-A All-Share:
1,198.71 (+0.6%)
New York
DJ Ind. Av.
2,890.88 (-19.45)
S&P Comp
373.65 (-2.54)
Tokyo: Nikkei
25,843.65 (+244.99)

LONDON MONEY
3-month interbank close:
$11\frac{7}{8}$% ($11\frac{1}{2}$)
Life long gilt future:
Jun 91 ($90\frac{31}{32}$)

Rural Spaniards to carry the day

Peter Bruce evaluates the strength of socialist votes in Alburquerque

Just after midnight on *Tuesday and Alburquerque* is buzzing. Election banners strung between buildings and pamphlets on the streets remind everyone that Spain goes to the polls on Sunday in nationwide local elections and in most of its states.

Topped by a 14th century castle that looks into Portugal, this tiny Extremaduran village is not conversation-friendly. Music booms out from a small fairground set up in the main plaza.

Stocky, tanned farm workers with huge necks and clean white shirts stroll with their *families past some of the stalls.*

Rural Spaniards will carry the day for Prime Minister Felipe González on Sunday. His Spanish Socialist Workers Party (PSOE) may, according to the polls, take a hammering in the cities on May 26. Socialist rule in Seville, Valencia and Barcelona is under threat as educated Spaniards tire of the socialist rhetoric the party pours out at election time, only to revert to its text-book market economics after the polls have closed.

House prices are beyond the reach of young people. Interest rates are chronically high.

The traffic is appalling and the socialists seem unable to control petty crime and drug peddling.

Madrid, in the hands of a right wing coalition, is going to be very *hard for the socialists* to recapture.

But in Alburquerque, with its 4,500 voters, most opponents are resigned to the PSOE remaining the biggest party.

"They will win," says Mr Francisco Mariscal, a long standing councillor for the conservative *Partido Popular.*

"These people are poorly educated and easier for the socialists to manipulate."

Up to 80 per cent of the population over 40 years old may be functionally illiterate.

"And look at the old folk at the railings there," says Mr *Arturo* Alvarez, leader of local communist-led Izquierda Unida (IU). "Before they were pensioners they had probably never seen the sea. Now the socialists take them on bus trips, give them medical care..."

The socialist mayor, Mr Emilio Martin, is impossible to see. But he, like all rural mayors in Extremadura and Andalucia, is key to Prime Minister González' continued rulé in Madrid.

These mayors have the power to "buy" votes.

When the socialists came to power in 1982, they instituted a system known as the *peonadas*, an unemployment subsidy for farm workers.

For every 60 days worked in one year, they would be given the right to 180 days' benefit the following year in return for *doing odd jobs for the local* municipality.

But the *peonadas* have become a political instrument. In theory, a mayor can sign *peonadas*, attesting that people have done their work, which are then taken along to the local employment office and *exchanged for payment.*

Mr Martin has just been accused by Labour Ministry inspectors of falsifying thousands of *peonadas*, allowing people to earn money for work they may not have done.

Mr Martin, unlucky, maybe, to have been *accused*, is *not* alone. The abuse of the *peonadas* is widespread around Extremadura and Andalucia and goes a long way to explaining how the socialists remain in power in Madrid.

But if a large part of the vote that keeps them there can barely read or write, the cities may be about to teach them a hard lesson. Seville is home to Mr González and his former deputy prime minister, Mr Alfonso Guerra - still deputy party leader and chief party organiser.

Growing support for the local Partido Andalucista has forced Mr Guerra to make extra appearances in the city and even Mr González has had to walk around talking to people, which he hates.

The socialists have thrown *some $8bn into the World* Exposition in Seville next year - a new airport, new high speed train to Madrid, new roads - and rejection in their back yard would hurt.

Assuming the city to be safe, Mr Guerra has, typically, imposed a friend, Mr Luis Yanez, as mayoral candidate. But Mr Yanez is a weak choice, able only to promise more money from Madrid if elected.

Bad results in the cities may at least damage Mr Guerra's position in the party machine and help seal deep divisions between the party and its conservative government.

The cities matter. In 1931, when the monarchists took the country by holding the rural *vote, King Alfonso XIII* nevertheless felt obliged to abdicate the next day because the Republicans had taken the cities.

In modern Spain, a divided opposition means the socialists are able to survive by making deals - it will support an IU mayor in Cordoba if the IU supports a socialist mayor in Seville.

That power broking may even reach down into places like Alburquerque, *but as the* music starts up for another night of fiesta and the people head for the bars on the Plaza de Espana, who cares?

Air France ruling 'was ignored'

By George Graham in Paris

THE French government has sidestepped the conditions imposed by the European Commission on last year's takeover by Air France of its two main French rivals, UTA and Air Inter, and continues to protect the national airline from competition, according to a French Senate report.

The report says the government has got around the provisions of its agreement with the Commission, which were designed to introduce an element of competition into the French market after the merger. Under the merger, both internal and international flights were concentrated overwhelmingly in the hands of Air France and its subsidiaries.

However, the government's choices in the allocation of new routes to independent air carriers appear intended to limit this competition.

The senators attack the government's refusal to allow new carriers to operate from Orly, the Paris hub for domestic flights. By insisting that they *should fly from Roissy-Charles* de Gaulle, the main international airport, it made it much more difficult for these companies to make money.

Chernobyl health fears maintained

By Michael Littlejohns in New York

MR Anatoly Karpov, head of the largest international group providing humanitarian aid to Chernobyl victims, yesterday criticised reports that claims of health damage through the 1986 nuclear power disaster were exaggerated.

At a press conference in the UN, Mr Karpov, the world chess champion, said the report carried out under the auspices of the International Atomic Energy Agency failed to study 116,000 people evacuated from a *highly contaminated* "dead zone", as well as more than 600,000 clean-up workers.

More than 1,000 in these clean-up crews since died from radiation exposure and 40 per cent of them were under 40 years old, he said.

Mr Karpov blamed officials in the Soviet Ministry of Nuclear Power for putting the best possible face on the disaster because they were eager to prevent any attempt to block the expansion of nuclear generating plants.

Mr Karpov, who discussed the UN International Chernobyl *Project report with* Mr Javier Peres de Cuellar, the secretary-general, said some of the worst effects of the disaster were only now being seen.

Global defence expenditure falls by 5 per cent

By Robert Taylor in Stockholm

GLOBAL expenditure on defence fell by 5 per cent last year to $960bn (£549bn), according to the *International Peace* Research Institute.

The US and the Soviet Union contributed more than 60 per cent of this total, says the Sipri yearbook published today. Military spending fell by 6 per cent in the US and by 10 per cent in the Soviet Union last year. But even after *those cuts, US* expenditure was nearly 30 per cent higher than in 1980 and Soviet spending was almost 38 per cent higher.

Defence spending in the Third World last year was around $150bn, or 16 per cent of aggregate world military expenditure. Although Sipri has recorded a rapid drop in Third World military spending since 1984, mainly because of economic difficulties, the year*book suggests that spending* stabilised in 1990. This may imply that a floor has been reached, raising concern that defence spending may again rise if and when economic fortunes allow, it adds.

Sipri calculates that the global value of trade in major conventional weapons last year was $21.7bn (at the 1985 dollar value), a 35 per cent decrease from the 1989 figure. The value of deliveries of major conventional weapons in 1990 was two thirds less than in the peak year of 1987.

An estimated 55 per cent of the deliveries were to Third *World countries.* Together the US and the Soviet Union accounted for 69 per cent of total arms deliveries, by value, last year. However, the US *share rose to 40 per cent* from 34 per cent in 1989, while the Soviet share dropped to 29 per cent from 37 per cent the previous year, reflecting the decline in the Soviet arms trade to India, Iraq and Afghanistan.

Nine countries accounted for 80 per cent of Soviet arms *exports last year* - India, Iraq, Afghanistan, north Korea, Syria, Angola, Poland, East Germany and Czechoslovakia.

The Gulf crisis made Saudi Arabia the largest arms-importing nation, followed by several other Gulf states, but elsewhere in the Middle East Sipri estimated there was a decline in the arms trade.

The yearbook also takes a close look at Iraq's weapons imports in the 1980s. Its latest calculation is that the country imported $27.369bn worth of arms over the decade, with 55 per cent of the aggregate sales coming from the Soviet Union, *19 per cent from France and* 8 per cent from China.

Sipri calculates the economic costs of the Gulf crisis before the onset of war in mid-January amounted to *$53bn – this* excludes the cost and devastation of the conflict itself. The sum is almost equal, says Sipri, to the total annual foreign assistance that Third World countries currently receive.

Sipri also records a decline in the number of major armed conflicts in the world last year to 31 from 33 in 1989.

Moscow welcomes US proposal on weapons

THE Soviet Union yesterday welcomed new US proposals to ban chemical weapons, and indicated it was ready like Washington to destroy all stocks after an international treaty was negotiated, Reuter reports from Geneva.

Soviet delegation head, Mr Sergei Batsanov, told the 39-nation Geneva disarmament conference that the US move opened the way for a breakthrough to agreement, with the *aim of resolving all outstanding* problems before the end of this year.

He was responding to a message last week from President George Bush which dropped two previous key US demands - the right to use chemical arms in retaliation, and insistence on keeping a small stockpile until all nations with such weapons had agreed to a treaty.

Complex negotiations on outlawing development, production and use of chemical weapons and the destruction of existing stocks have been dragging on at the Geneva forum since 1968.

A 1925 international protocol prohibited their use, but UN investigators reported they were employed during the Iraq-Iran war of 1980-88.

President Bush proposed all stocks be destroyed in the 10 years following conclusion of a treaty, superseding a draft agreement signed with President Mikhail Gorbachev, the Soviet president last June which committed both states to destroy all but 5,000 tonnes – or two per cent – each of their chemical weapon stocks by 2002.

Retaining reserve US and Soviet stocks was intended as a safeguard until all states capable of producing chemical arms had joined an agreement banning them.

Retired general murdered by gunmen in Turkey

GUNMEN killed a retired Turkish army general in Ankara yesterday and wounded another and his driver in the southern city of Adana in the latest of dozens of political attacks, Reuter reports from Ankara.

The Anatolian news agency said Major General Ismail Selen, killed in the Turkish capital, was a former military commander in southeast Turkey where the Kurdish Workers Party (PKK) has been fighting for independence since 1984. No-one has admitted responsibility for this attack.

The shooting in Adana, carried out by three gunmen, was claimed by the extremist Dev-Sol (Revolutionary Left) group in a call to the Adana office of the Hurriyet daily.

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EUROPEAN NEWS

EC reaches accord on feeding Soviet poor

By David Buchan in Brussels

THE EC finally agreed terms with Moscow yesterday on the delivery of Ecu250m (£172.5m) worth of free food to the poor and needy in the Soviet Union.

The agreement came at a meeting of the EC-Soviet joint committee that also discussed progress towards economic reforms which Soviet officials hope could unlock large amounts of macroeconomic aid from the west.

Mr Ernest Obminsky, the deputy foreign minister who led the Soviet delegation, said he thought most of the members of the Group of Seven main industrialised countries favoured inviting President Mikhail Gorbachev to their July summit, at which aid to the Soviet Union will be discussed.

"If the West comes out of that meeting with the feeling that the (Soviet) process is in the right direction, the financial terms could be settled," he said. With a total debt of $63bn (£36.4bn), an economy of the Soviet Union's size could support more borrowing if the West were ready to lend, he suggested.

But EC officials pressed their Soviet counterparts on the country's payments arrears, which amount to DM2bn (£690m) owed to German companies and £120m to UK companies. Mr Obminsky acknowledged western aid depended crucially on political stability in the Soviet Union. Aid of "$50bn or $100bn would not help if we have a situation of conflict or war in our country".

The EC is to start delivering, through charity organisations, a first delivery of 80,000 tonnes of food, worth Ecu215m, in July to a list of hospitals, orphanages, kindergartens and old people's homes, eventually provided by Moscow after delay. A second slice of aid, amounting to 12,700 tonnes worth Ecu35m, will go later.

Mr Obminsky said Moscow was still in talks with the EC and western commercial banks for up to Ecu500m in EC-guaranteed credit to buy food. Also still under discussion is the EC's promised Ecu400m worth of technical aid.

Gorbachev visit, page 6

West's aid 'should be tied to democracy'

By Anthony Robinson

THE resignation of President Mikhail Gorbachev and his replacement by a democratic regime with popular support should be a pre-condition of any large-scale western financial and other assistance to the Soviet Union, according to Professor Anders Aslund, one of the most respected analysts of the Soviet economy.

Speaking at the Royal Institute of International Affairs in London he argued that, without prior democratisation, western aid would be more likely to lead to another unsuccessful attempt at authoritarian stabilisation, like that tried by General Wojciech Jaruzelski in Poland after 1981.

His remarks to businessmen, diplomats and academics run counter to the plea by Professor Jeffrey Sachs and other Harvard economists for the west to provide conditional assistance of between $20bn (£11.5bn) and $30bn annually to assist Soviet reform. They could also affect the current attempt by the Soviet leader to attend the forthcoming meeting of leaders from the seven leading industrialised countries (G7) in London in July which has been sceptically treated by several western governments. Mr Grigory Yavlinsky, a leading Soviet economist, is currently in the US preparing a reform package.

Professor Aslund rejected Mr Gorbachev's explanation for the collapse of the Soviet economy as a consequence of demolishing the old command economy before creating a market system to replace it. "It is not an organisational problem. The roots ... lie in the failure to curb the growing budget deficit, the explosion of wages after passage of the state enterprises law in 1988 and the outrageous increase in social benefits after elections to the Congress of People's Deputies in 1989," he said.

This year's expected budget deficit of Rbs248bn, nearly 20 per cent of GDP, could be accounted for entirely by the allocation of Rbs150bn to new social programmes and Rbs110bn to new consumer subsidies, he added.

Further pressure came from the sharp increase in defence spending to Rbs96bn, although the military insist this is a 7 per cent reduction in real terms. "These three factors are sufficient to explain the current crisis with its market imbalances, increasing reluctance to exchange goods for money and reinforcement of all the latent antarchic forces in the system," he said. The result was sky-rocketing inflation and an expected 20 per cent decline in GDP this year.

The Soviet economy was now virtually in free fall, after a 10 per cent decline in GDP.

Faced with the choice, the west should give preference to helping the newly democratic regimes of eastern Europe rather than the unreformed Soviet Union, he said.

Lithuanian border posts set alight

SOVIET security forces yesterday set fire to improvised Lithuanian border posts as part of an undeclared war against Lithuania's attempts to act as an independent republic, writes Leyla Boulton in Moscow.

The dawn raids on four posts set up by Lithuania on its border with Latvia contrast sharply with the Kremlin's promise to resolve disputes with the breakaway republic by political means.

A Lithuanian spokesman said that two Lithuanian border guards were injured in the attacks. Lithuania says the border posts are to stop black-marketeers from smuggling.

Allied veterans of the unsuccessful attempt to hold Crete against German invasion 50 years ago this week during a ceremony on the Greek island yesterday. The commemorations end on Sunday with the attendance of Chancellor Helmut Kohl, who was invited as a mark of a new era in Europe since German unification. Hundreds of German veterans are also attending ceremonies with their former enemies from New Zealand, Australia, Britain and Greece. About 30,000 Commonwealth, Greek and German soldiers died in the battle. Fighting lasted 11 days before German paratroopers overpowered Crete's defenders.

Martell fined for obstructing export rival

THE European Commission yesterday fined Martell, the French cognac producer and distributor, Ecu300,000 (£210,000) for obstructing cognac exports to Italy by a rival distributor, writes David Gardner in Brussels.

Distribution Martell Piper (DMP), the distribution arm Martell owns jointly with Piper Heidsieck, was also fined Ecu50,000. The move is part of a clampdown on attempts to restrict competition through the use of exclusive distributors.

Brussels acted after a complaint from Vincent Gosme, a French wine, spirits and food wholesaler which exports cognac to Italy, where Martell has an exclusive distributor.

When Gosme increased its orders in an attempt to export more, DMP withheld the bulk order discounts to which it was entitled by virtue of its membership of one of the main French wholesalers' organisations. The effect was to force Gosme to mark up its cognac in Italy by more than 25 per cent. The Commission concluded that this restrictive practice was part of a deliberate strategy by Martell and DMP to restrain so-called "parallel exports".

Old regime comforts many east Germans

By David Goodhart in Bonn

A DISTURBING number of east Germans see the old communist regime in a more positive light because of their current economic uncertainties, Mrs Birgit Breuel, new president of Treuhand, the agency charged with privatising east German industry, says.

Mrs Breuel declared: "For many people, all the positive things – free elections, freedom of travel and speech – are overshadowed by this fear." Treuhand's financial limits for this year – DM30bn in guarantees for east German corporate borrowing and DM25bn in actual Treuhand spending – were insufficient, she added. "We have spent DM7bn alone in the first half of 1991 on interest payments for the DM100bn of old debts carried by east German firms."

It might be the end of this year before all companies produced their first DM balance sheet, despite the original deadline of last October. Sixty per cent of companies have produced DM balance sheets; more have their own business plans. About 1,660 companies out of 8,000-plus have been sold (with 485 closed), and DM55bn in new private investment has been pledged. Five per cent of companies have been sold to foreign concerns but Treuhand is to open in New York and Tokyo.

Poles urged to accept reform

By Christopher Bobinski in Warsaw

POLAND would face "economic chaos" if present stringent monetary policies were dropped, Mr Leszek Balcerowicz, deputy prime minister, told parliament yesterday.

Mr Balcerowicz was speaking ahead of a debate on the economy due today . His warning follows Solidarity's day of protests against government policies on Wednesday.

He warned against any easing of monetary restrictions agreed with the International Monetary Fund. "Healthy growth cannot be bought at the price of high and mounting inflation," he said.

Nr Balcerowicz implied monetary policies were, if anything, too slack and banks would be told to tighten policy towards chronically indebted enterprises. The government would also to speed up privatisation of state sector enterprises. Further efforts would be made to open markets to Polish goods and to attract western investment.

Philips, the Dutch electronics group, pledged to invest about $300m (£173.4m) over the next five years in the Polam Pila lighting plant in an agreement signed yesterday.

Philips has been negotiating a takeover of the plant, in the north-west of the country, since the beginning of the year. In February the government agreed to sell 51 per cent of the shares for $16m. The Philips stake rises to 66 per cent under the deal signed yesterday, with the Dutch agreeing to cover costs arising from environmental pollution by the plant. Workers at Polam Pila had threatened to go on strike unless the agreement was signed by May 23. A majority private share in the company removes the government's wage control restrictions.

■ The US Boston-based Pioneer Group has filed the first application to Poland's new Securities Commission for permission to set up an fund aimed at investing in Polish companies.

The company would hope to raise $100m from Polish investors and to place some on the country's fledgling securities market and the rest abroad.

Pioneer will withdraw its application unless the Poles give permission for the funds raised at home to be invested abroad.

Europe venture capital investment in decline

By Charles Batchelor

THE European venture capital industry's record of unbroken growth was interrupted in 1990 when money raised and sums invested declined. The setback was noticeable in Europe's most developed venture capital markets: Britain, France and the Netherlands, but the German market came alive after a long torpor.

Venture capitalists raised Ecu4.6bn (£3.2bn) in 1990, a fall of 21 per cent on 1989, taking total venture capital funds, invested or available for investment, to Ecu28.4bn, the European Venture Capital Association said. Investments totalled Ecu4.1bn, 3 per cent down on 1989.

The UK continued to dominate the industry in Europe, accounting for just over half the venture capital pool, but continental European venture groups together raised more than their UK counterparts for the first time.

UK groups raised Ecu2.0bn, down on the Ecu3.2bn raised in 1989, while continental groups raised Ecu2.4bn, up from Ecu1.2bn the year before.

Germany overtook the Netherlands and Italy in 1990, in terms of size of the national venture capital pool. It rose from number five to three in the European league table, with a total Ecu2.1bn funds available.

Kohl sees common EC defence

MR Helmut Kohl, the German Chancellor, said yesterday that a common European foreign policy must, in the long run, include a common security and defence policy, writes Robert Mauthner, Diplomatic Editor.

However, he stressed in a speech at Edinburgh university where he was awarded an honorary doctorate, that such a European policy must neither replace nor weaken the Atlantic Alliance. "The Alliance and the presence of US troops in Europe remains indispensable for our security."

He reiterated the German position that a treaty on political union must go hand in hand with a treaty on economic and monetary union being discussed by two intergovernmental conferences.

Party in disarray as Sonia Gandhi rejects presidency

By David Housego in New Delhi

THE Indian Congress party was in a state of disarray last night after Mrs Sonia Gandhi, the Italian-born widow of Mr Rajiv Gandhi, declined to accept the presidency of the party.

"The Congress party has been in power so long and yet they cannot find a leader", said one of the party's inner circle impatiently. Mrs Gandhi was the easy choice to forestall further leadership quarrels. But her being both Italian-born and a Christian made her a liability in the eyes of many senior Congressmen to a party whose main opponent in this election is the Hindu revivalist movement.

Apart from her, there are no other obvious choices. The most senior figure in the party, and now the most likely successor, is Mr PV Narasimha Rao, 70, who was long an unofficial number two to Mr Gandhi. He was foreign minister under Mr Gandhi and home minister under his mother. But he has been in poor health after recent open heart surgery and has no wish to assume the leadership in the midst of an election campaign.

A second possibility is Mr ND Tiwari, 57. A large heavily built man who always wears a white Nehru cap, he has been finance minister in the central government and chief minister of Uttar Pradesh. He is the Congress "boss" in UP – but one whose loyalty Mr Gandhi doubted. Mr Tiwari has great political astuteness and skill in backroom manoeuvres. But he is more a politician of the Hindi speaking north than he is a national leader.

A third contender is Mr Sharad Pawar, chief minister of Maharashtra. He is also more a regional "boss" than national politician. He played a key role in putting pressure on Mrs Gandhi to decline the presidency. Mr Pawar has also been a prime mover of a long simmering scheme to reunite the Congress with factions of the Janata Dal under the leadership of Prime Minister Chandra Shekhar.

The party's difficulty in finding a leader reflects weaknesses in the way it has been run both under Mrs Gandhi and Rajiv. Jawaharlal Nehru allowed talent to flourish under his leadership and had thus several ministers or heads of government in the states who developed strong reputations. Both Mrs Gandhi and her son feared that their ministers could become their rivals and therefore clipped their wings.

Coupled with this system of preventing senior Congressmen from becoming too successful both Mrs Gandhi and her son depended heavily on back-room advisers and loyalists. Most prominent among these is Mr RK Dhawan who managed Mrs Gandhi's private office and assumed an increasingly important role under Rajiv in handling the party's affairs.

Mr Dhawan is believed to have been a prime mover in the campaign to draft Mrs Sonia Gandhi. Failure of the manoeuvre will be damaging to his power and to that of other former close associates of Mr Gandhi.

World stock market report, Page 43

K.K. Sharma and Mervyn de Silva report *on the scope of the police inquiries*

Suicide woman leaves few clues to her motive

INDIAN police agencies investigating the assassination of Mr Rajiv Gandhi yesterday broadened their inquiries from the initial suspicion that a militant Tamil organisation was behind the killing.

They did so after examining the remains of a woman who blew herself and Mr Gandhi up with a bomb concealed in an abdominal belt. The woman's remains are badly disfigured but the examination suggests that she could have been either a Tamil or a Punjabi.

Indian police agency sources are working on the two possibilities that the woman belonged to either an extremist Tamil group or a Sikh militant organisation. Both have motives for the assassination.

The militant Tamil Tigers believe they were betrayed by Mr Gandhi when he agreed to send the Indian army to Sri Lanka.

The Indians fought a prolonged and indecisive war in Sri Lanka. Many militant Sri Lankan Tamil groups believe that as a result they were prevented from winning an independent homeland they call Eelam.

The Tamil Tigers (LTTE) made little effort to conceal their disappointment with the India-Sri Lanka agreement of July 1987 signed by President Junius Jayawardena and Prime Minister Rajiv Gandhi. According to the Congress (I), that treaty guaranteed the safety of the minority Tamils in Sri Lanka's north and east, safeguarded India's security interests and preserved the island's territorial integrity.

In August 1987 the Tigers were the only group to reject the accord, although Mr Velupillai Prabhakaran, their guerrilla chief, had promised Mr Gandhi he would co-operate with the Indian Government.

On returning to Jaffna after negotiations over the accord in Delhi Mr Velupillai Prabhakaran pledged that the "struggle for Eelam" would never end. He rejected the accord because the regional autonomy granted fell short of his dreams.

Mr Gandhi also insisted on free elections to the new assembly in which all Tamil militant groups could contest. This allowed the Tigers' hated rival, the EPRLF, to participate and win the majority of seats.

However, during the last three months, according to sources in Madras, the Tigers had settled their differences with Mr Gandhi, mainly through talks with Ms Jayalalitha, a former film star whose party is an ally of the Congress in Tamil Nadu. Hence, the Tigers are thought to have supported the Congress in the Indian elections and worked for Mr Gandhi.

Not withstanding this, Dr Subramaniam Swamy, India's controversial Minister of Law, said in New Delhi yesterday that evidence gathered so far points to the involvement of the Tigers in the assassination, although he added "there is no clinching proof" for this.

If reports of Mr Gandhi's recent rapprochement with the Tigers are correct, it would appear that militant Sikh organisations had a stronger motive for killing Mr Gandhi, who has been on their hit list ever since his mother ordered the Indian army to launch "Operation Bluestar" to flush out armed Sikhs from the holy Golden Temple in Amritsar in 1984.

The groups assassinated Mrs Indira Gandhi a few months after the army action and they had vowed to kill other members of her family.

However, it is clearly too early yet to establish any firm conclusions and police sources concede that they are still in the exploratory stages which are leading them to question Tamils, try to track down other militant organisations and investigate all possibilities.

These even include a theory that Sikh and Tamil militants had established contacts with each other with the aim of assassinating Mr Gandhi, the opportunity for which came during his election campaign when he shed security precautions and mingled freely with audiences in election meetings.

Sonia Gandhi sits with her son Rahul at the foot of her husband's body at Teen Murti House in New Delhi yesterday

Financing difficulties worsened by assassination

International banks toughen stance

By Stephen Fidler, Euromarkets Correspondent

THE MURDER of Rajiv Gandhi is the latest in a series of blows which threaten India's record of never having defaulted on its international debt obligations.

Before the election was called, Indian finance officials were making the rounds of international creditors in an emergency effort to bolster financial support for the country. They approached several of the country's government creditors, seeking $1bn, and although Japan and others agreed to help, most were unwilling to make anything except a modest acceleration of relatively small programmes.

The officials also held meetings with senior commercial bankers. Banks were intensifying India's financial difficulties by refusing to renew lines of credit and the aim was to stop a further erosion of these credit lines.

The election campaign halted this process and the delay announced in the election is likely to postpone it still further. The fall of the government delayed approval of the country's 1991-92 budget, upon which hangs agreement by the International Monetary Fund of a standby loan programme.

The Iraqi invasion of Kuwait intensified the financing difficulties already being faced by India. The rise in energy prices pushed up its oil bill significantly, while remittances by Indian workers – an important source of foreign currency – dried up significantly. This increased international bank worries about the security of their funds.

According to estimates from the Institute of International Finance, the Washington-based think tank created by international banks to study the debt problems of third world countries, the oil deficit increased to $5.6bn ($3.2bn) in the fiscal year ended March 31, from $3.8bn the year before.

This helped push the trade deficit to $6.6bn and the current account deficit to $8.9bn, the institute estimates.

Foreign debt rose by $5.8bn last year, although banks pulled almost $500m out of the country, compared with their net loans of nearly $800m the year before. Of the total debt of $70.2bn, some $44bn is owed to official creditors and $11bn to foreign banks.

The problems intensified early this year, forcing India to draw down some $1.9bn from its foreign exchange reserves and leaving $2.3bn in March 1991, less than one months' imports of goods and services. Although official holdings of gold amount to $3.8bn, the government has said that it will not sell gold or use it as collateral for loans.

Keeping an unblemished record of foreign debt payments may be the least of India's worries in the years ahead, but if it is to do that it will depend heavily on the IMF. The IMF disbursed $1.8bn to India in January, including a $1bn meant to make up for the impact of the Gulf crisis.

If it is to secure that record – and that will depend on help from commercial banks and other official creditors, including the World Bank – it will need to assure the Fund that it is bringing its budget deficit under control.

Such action, at a time of political unrest, is likely to be resisted by the authorities as a highly risky venture. In recent talks at the spring meetings of the IMF and World Bank in Washington last month, Indian officials were still emphasising that India was a special case and that solutions appropriate for other economies were not suited to India's.

However, whether or not this is the case, foreign creditors are likely to seek evidence of a fundamental shift in the inward-looking economic policies that have been in place since independence before they will provide India with significant financial support.

Major may appeal to China over Hong Kong airport

By John Elliott in Hong Kong

MR JOHN MAJOR, UK prime minister, is to consider appealing personally to Li Peng, China's premier, to approve the building of Hong Kong's proposed HK$100bn (£7.5bn) international airport which faces the risk of being seriously delayed, even cancelled, because of an impasse between the two countries.

He will decide if such an initiative is worth making during the next few days, after senior ministers will have heard a report on five days of talks in Peking which ended in deadlock. A spokesman for the Chinese government indicated yesterday more talks would be held later. Sir David Wilson, Hong Kong's governor, said it was too early to confirm this. Proposals put forward by both countries had "not matched up," he added. He described the UK proposal as "very practical"; the Chinese spokesman said Peking's had been "positive and constructive".

China is believed to have proposed a joint commission to vet a wide range of government policy decisions overrunning the 1997 date for handover to Chinese sovereignty. The UK rejected this and tried unsuccessfully to separate the airport from wider issues of China's control before 1997.

The project is now nearer being cancelled by the Hong Kong government than at any time since China first started querying the plans nearly 18 months ago. China is using the project to gain a large degree of control over long-term decisions in Hong Kong before it the sovereignty handover.

Hong Kong cannot raise international equity and loans for the project until China cuts the political risk to manageable size by indicating its backing. But private-sector interests are considering mounting a rescue operation if the talks break down.

The impasse has delayed bridge and roadwork tenders, which have a deadline of next month. If that is missed, the government will have to admit its planned airport opening date of 1997, already regarded as unrealistic by senior engineers, must be abandoned. That would be a blow, because the government had hoped to open the airport just before Hong Kong goes back to Chinese sovereignty. China's refusal to come to agreement is being seen in Hong Kong as an attempt to humiliate the UK.

Saudis turn to banks to ease war costs burden

THE Saudi Arabian government is seeking a $2.5bn loan from a group of big Saudi banks to help meet some of the costs of the recent Gulf war, financiers in the Saudi capital said yesterday, AP-DJ reports from Bahrain.

The kingdom's two largest banks, National Commercial Bank (NCB) and Riyad Bank, have been discussing the terms of the loan with the government and are expected to syndicate the deal among other local banks, financiers said.

The deal would be the second foreign currency loan raised by Saudi Arabia this year and marks a break with the kingdom's policy of avoiding foreign borrowing. Earlier this month, the kingdom signed a $4.5bn credit with a group of foreign banks, the first dollar borrowing by Saudi Arabia in more than two decades.

Businessmen said interest charges on the new loan are likely to be set at about ¼ per cent to ⅜ per cent above Libor (the London interbank offered rate).

The Islamic proscription of usury makes borrowing a highly sensitive subject for the Saudi government.

Financial sources said they expect Saudi Arabia will use the credit to pay off the $13.5bn which the kingdom agreed as its contribution towards the costs of the war to free Kuwait.

Saudi Arabia has still to pay around $8bn of the commitment made to the US and has faced criticism in Congress for the delays in paying off the balance. US officials have been trying to get the kingdom to agree a timetable for paying off the remaining debt.

Bankers said the high levels of liquidity in Saudi banking system should make it relatively easy for the government to raise loans.

Officials from NCB and Riyad Bank met yesterday to discuss a strategy for bringing other Saudi banks into the credit, according to the sources, who requested anonymity.

Despite government worries about foreign borrowing, there have been tentative moves in recent years to allow parastatal companies to borrow more freely.

Earlier this week, news emerged that a subsidiary of Saudi Aramco, the national oil company, is borrowing $300m from local banks in what is apparently the first-ever dollar borrowing by the state-owned oil producer.

Vela, the Saudi Aramco unit which runs the kingdom's fleet of oil tankers, will use the 13-year loan to purchase new vessels, bankers said.

Two years ago the Public Investment Fund (PIF), a government pension fund body, set the trend for foreign currency borrowing by parastatals with a $660m credit syndicated among Saudi-owned banks.

Bankers said the trend towards parastatal borrowing is likely to continue.

South Africa election won by right-wing

South Africa's right-wing Conservative Party (CP) has won a by-election victory in Orange Free State in what political analysts described as a sign of bloody confrontation to come, Reuter reports from Johannesburg.

Results released yesterday showed the CP had beaten the National Party (NP) of reformist President FW de Klerk by 1,258 votes in Ladybrand constituency, compared with a CP majority of 70 votes in the general election in 1989.

Cubans quit Angola

The last Cuban soldiers in Angola are expected to be pulled out over the week-end, ending almost 16 years direct military backing for the MPLA (Popular Movement for the Liberation of Angola) government, Robert Graham writes. The 2,000 troops will be leaving five weeks ahead of schedule, following a peace agreement in Portugal on May 1 between the government and its long-standing opponents, the US and South African backed Unita (National Union for Total Independence for Angola) rebels.

Tibet's 40 years

China, vowing Tibet will never be independent, celebrated 40 years of communist rule over the remote Himalayan region with rallies and fireworks under tight security, Reuter reports from Peking. China has been widely criticised by western governments for human rights violations in Tibet. A Tibetan government official, contacted by telephone yesterday, said some Buddhist monks would attend official ceremonies but most would remain in their monasteries around the city.

Amnesty for 258 in South Korea

By John Ridding in Seoul

SOUTH KOREA yesterday announced amnesties and cut sentences for 258 people jailed for, or accused and convicted of, political crimes, in an attempt to defuse the biggest wave of protests seen in Seoul since 1987.

The move follows yesterday's resignation of the prime minister and comes amid indications that a broader cabinet reshuffle will be announced today.

The moves have been greeted with scepticism by opposition leaders. But there are signs that the wave of demonstrations, fuelled by the death of a student in disturbances last month, are beginning to ebb.

Some 74 people will be freed tomorrow and another 30 will have their sentences cut. All were convicted and jailed under the national security law, revised this month. The remaining 154, including Mr Kim Dae Jung, leader of the biggest opposition party, will have charges under the law dropped.

Mr Lim Su Kyong, a student, and Mr Moon Kyu Hyun, a pastor, both sentenced to five years for making unauthorised visits to North Korea, were excluded from the amnesty.

Hawke talks down Australian dollar

By Mark Westfield in Sydney

RESERVE BANK selling, along with a "talking down" of the Australian dollar by Mr Bob Hawke, the prime minister, yesterday, triggered a dip to the currency's lowest level against the US dollar in 12 months.

Offshore investors appeared to panic after Mr Hawke said a "somewhat lower exchange rate" would help Australian exporters. The Australian dollar fell US1.5 cents over the day to US76 cents, after being nearly US2 cents down.

Currency markets were nervous ahead of Mr Hawke's comment. Earlier, Mr Bernie Fraser, Reserve Bank governor, was reported as saying a 5 per cent depreciation would help cut Australia's current account deficit. The dollar dropped US0.5 cents when the news reached currency dealers.

"Ideally, if there were some way of knocking 5 per cent off the exchange rate and nothing else happened. . . it would help the current account adjustment," Mr Fraser had said, adding Australia's inflation rate would fall to 4 per cent within a year. Currency traders began to sell overnight. The Australian dollar has fallen from Y108.4 to Y104.4 in the past four days.

Tunisian exiled leader denies planning a coup

THE exiled leader of Tunisia's outlawed Nahdha Islamic movement denied government charges yesterday that he planned to seize power through a military coup, Reuter reports from Paris.

"I challenge (Tunisian authorities) to prove these allegations to the Tunisian people in accordance with due process," Mr Rached Ghannouchi said.

"Our means for change are civilian and peaceful. We have always opposed a putsch," he told Radio France Internationale.

Tunisia said on Wednesday it had arrested nearly 300 Moslem fundamentalists, including 100 army men, accusing them of planning to seize power in a coup and create an Islamic state.

Mr Ghannouchi said that, over the past few months, eight Nahdha militants had been killed and 3,000 had been detained. Police were hunting another 10,000.

He said Nahdha was a civilian movement. It had sympathisers within the army as in other sectors of Tunisian society but they could not be described as militants.

Mr Ghannouchi said Tunisian authorities had issued an international arrest warrant against him.

In a letter to the French daily Le Monde, he said Tunisian President Zine el-Abidine Ben Ali had decided last September to crush the Islamic movement.

"It is this plan, carefully hatched for several months, which is now being methodically carried out with force," he wrote.

Addis Ababa awaits the violence by night

By Julian Ozanne near Tatek in Ethiopia

WITH HEADS hung low, thousands of dishevelled, battle-weary Ethiopian soldiers retreating from the front-line straggled down a twisting road at Tatek, 30km west of Addis Ababa yesterday, as rebels continued their push to the capital.

Tension continued to mount in Addis Ababa, for fear of a breakdown in law and order, as armed government soldiers poured into the city.

The government released nearly 200 political prisoners, many of them active in the coup attempt of May 1989, in an effort to make further concessions to the rebels.

The release of political prisoners has been one of their key demands. But the rebel Ethiopian Democratic People's Revolutionary Front (EDPRF) refused to accept the renewed plea for a ceasefire made late on Wednesday by acting president Tesfaye Gebre-Kidan.

Mr Meless Zenawi, a rebel leader, assured US officials his fighters would not enter the capital until after US-sponsored peace talks are scheduled to start in London next Monday.

"Meless is trying to build up the pressure in Addis so that he can dictate terms in London," one US official said. "But we are not sure whether he has complete control over his field commanders."

Fighting raged yesterday 8 kms north of Tatek where at least 30,000 government troops with 40 tanks are dug in. By afternoon, thousands of troops with torn uniforms, machine guns and rocket-propelled grenades were heading into the capital.

Hundreds hobbled on makeshift crutches, their limbs blown off in recent fighting. Others had their arms in slings and their heads bandaged. Most of the wounded were from among the 3,800 patients at the military hospital in Tatek, closed yesterday apparently in preparation to evacuate the town.

As the government army entered the capital in disarray, Ethiopians savoured the taste of freedom for the first time since the former dictator, Mengistu Haile Mariam, fled the country on Tuesday.

In marked contrast to the apathy which has so far characterised the city's residents, hundreds of people danced and chanted as a 30ft statue of Lenin, the last left in black Africa, was taken down.

People threw stones at it, spat on it and tried to set fire to Lenin's face with flaming pieces of paper.

But underlying the first signs of celebration, many remained subdued at the prospect of rebels entering the city. Soviet T-72 tanks were, for the first time, positioned outside all the entrances to the Menelik Palace, the residence of Mr Gebre-Kidan and the stronghold of the highly-trained 3000-strong presidential bodyguard.

As the first reports of looting ad highjacking of cars on the outskirts of the capital began to reach them, many people left their jobs for home, fearing an outbreak of violence at night. The 9pm-5am curfew remained in force.

Hundreds milled around on the streets watching the soldiers limping in. "It has all the signs of a city just about to disintegrate into anarchy and violence," one western observer said.

But hopes, however slim, still remain that the rebels will pause outside the city until the London talks, where a broad-based transitional government could be agreed, paving the way for a ceasefire and democratic elections.

Both Mr Zenawi and Mr Issayas Afferwerki, leader of the Eritrean People's Liberation Front, who were fighting yesterday south of Asmara, told the US they would come to London to negotiate seriously.

WORLD TRADE NEWS

US and Japan fail to settle construction row

By **Robert Thomson** in Tokyo

THE US and Japan yesterday failed to settle a dispute over foreign access to Japan's construction market, and US officials warned that sanctions would be imposed on Japanese construction companies in the US unless there was a resolution before the end of May.

Negotiators are likely to meet in Tokyo again next week, but Mr Michael Farren, the US under-secretary of commerce, said the countries were still far apart in talks on assigning projects in Japan for which foreign companies will receive special treatment.

The two countries are negotiating the renewal of a 1988 accord designed to give US contractors needed experience in the Japanese market by targeting 17 public works projects for which there would be special application procedures.

Mr Farren said Japan has nominated about a dozen more projects, while the US wants about two dozen projects on the list.

He said that when the US suggested new projects, Japanese officials insisted that there was a "timing" problem.

"They say the project is too early or too late for inclusion. That's a not surprising answer. That's the answer foreign firms have heard for decades. They are just too early to get one (a contract) or just too late," Mr Farren said.

Japanese officials argue that the original agreement was meant to be a once-only opportunity for a special introduction to the market and that a new agreement with extra projects goes against the spirit of the first accord.

In late April, Mrs Carla Hills, the US Trade Representative, said that Japanese companies would be barred from federally-funded construction projects from May 31, unless the dispute was resolved.

Mr Farren said yesterday that the ban may not immediately affect a large number of Japanese companies, but could cause longer-term damage to their credibility in the US.

Tokyo must reform barriers says Delors

By **Stefan Wagstyl** in Tokyo

MR Jacques Delors, president of the European Community, yesterday urged Japan to reform internal barriers to foreign trade and investment.

In language reminiscent of US attacks on restrictions in Japanese markets, Mr Delors said: "The most important thing now is the hard core of the Japanese system: structural barriers – whether it be the distribution system or the closed nature of industrial groupings; barriers stifling the propensity to consume and import; and tight control over the domestic market as a basis for controlling external markets.

"We cannot be satisfied with declarations of good intent in all these areas. The only way of getting to the root of Japanese over-competitiveness is through broadening our approach (in tackling internal barriers)." Mr Delors did not explain what he meant by over-competitiveness, but made clear he expected Japan to cut its surplus with the EC.

Mr Delors was speaking to Japanese and European officials and businessmen during a visit to Japan which is due to end tomorrow. Asked about the views of Mrs Edith Cresson, the new French prime minister, who has attacked Japanese trade policies, Mr Delors said Mrs Cresson's message was an expression of concern about Japan's capacity to reach a balance in economic relations and a warning that Europe intended to increase its competitiveness.

Mr Delors gave credit to Japanese steps to open markets to imports, but said they were not enough. The trade deficit was widening again. Also, trade flows alone were not the real issue, but "technological and industrial dependence."

Mr Delors suggested that European companies faced being dependent on Japan because they could not enter the Japanese economy as well as Japanese companies could enter Europe. "We must never forget that the ratio between community investment in Japan and Japanese investment in Europe is somewhere in the region of one to 17."

Talking gets tough in Japan trade debate

Robert Thomson finds mistrust and suspicion on both sides of the table in SII talks

THERE was a noticeable shift this week in the trade debate between Washington and Tokyo. Both governments have taken to blaming the other's companies for the bilateral trade imbalance, and US officials are hinting that investment opportunities for Japanese companies could be restricted in the US.

Addressing the causes of US economic ills, Mr Makoto Utsumi, Japan's deputy finance minister, raised the subject of executives' remuneration and "a certain US car company" that pays its chairman 150 times more than its skilled workers.

This criticism of companies is, in part, a reflection of the governments' inclination to point to their own good works and to justify the existence of the Structural Impediments Initiative (SII), designed by them to address the basic causes of the trade imbalance. SII has involved discussion of weighty issues such as education, public works spending, and the US budget deficit.

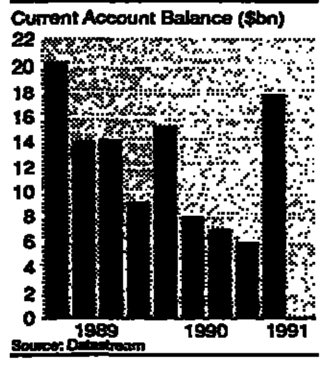
But the increasing focus on corporate behaviour also reflects Washington's conviction that trade problems will remain unsolved until the influence of the *keiretsu* is diminished. *Keiretsu* are the Japanese corporate groupings characterised by cross-shareholdings, close business relationships, and regular meetings of the member companies' executives.

At a review this week of SII promises made a year ago, US officials congratulated the Japanese government on having increased infrastructure investment, partly deregulated the distribution system, and continued the liberalisation of foreign investment.

But, on *keiretsu*, the US report on Japanese reforms said that these groupings, which include most of Japan's best-known companies, often tend to "foster preferential group trade and anti-competitive activity, and impede foreign direct investment". The US noted "a lack of willingness to deal with the problem of cross-shareholding" and that the *keiretsu* "remain a formidable barrier".

Japan

Current Account Balance ($bn)



Source: Datastream

Mr Charles Dallara, an assistant US treasury secretary, took the criticism further by suggesting that Japan's other trading partners are growing more frustrated with *keiretsu* obstruction and Japanese companies may find that restrictions are imposed on their international activities. Japanese companies, he said wryly, should show their famed long-term business sense and make the changes.

But Mr Utsumi at the Finance Ministry suggested that US officials are "confused" by the *keiretsu*, whose close ties are mistakenly interpreted as sinister collusion, and that US criticism arises from a misplaced sense of victimisation by Washington. He also chipped in with the idea that corporate America would be more competitive if executives did not set their own salaries.

> But Mr Utsumi at the Finance Ministry suggested that US officials are "confused" by the keiretsu, whose close ties are mistakenly interpreted as sinister collusion, and that US criticism arises from a misplaced sense of victimisation by Washington.

The formal Japanese review of US progress in implementing SII progress over the past year also contained similar advice: "Excessive executive compensation may have adverse effects not only on the morale of the employees, but also on corporate savings." The report suggested that Washington "review the tax code" to reduce these "excessive" salaries.

Washington was also advised to "induce long-term corporate behaviour", which is the Japanese way of saying that US companies have to broaden their vision. One suggestion was that corporations should make profit statements "less frequently than quarterly", while the US government should monitor mergers and acquisitions to ensure that "reasonable" lending practices prevail.

Tokyo's suggestions may indeed help to strengthen US companies but, as has been the case since the SII process began two years ago, Washington would prefer to make Japan more like the US than to make the US more like Japan. And while Japan's current account surplus fell from $57bn in 1989 to $36bn last year, the figure has been on the rise in recent months.

In pressing for change, US officials this week released a joint price survey conducted under SII that showed prices of comparable products are on average 37 per cent more expensive in Japan than in the US and, curiously, that the same bottle of Japanese-made sake was 44 per cent more expensive in Japan than in the US.

To increase competition, the US wants a toughening of anti-monopoly legislation, including higher penalties than the present 6 per cent of sales over a maximum of three years. Washington also wants criminal actions launched against violators and tougher criminal fines, which it says are now less than 0.5 per cent of those in the US and Canada.

As for the *keiretsu*, Washington wants Japan's Fair Trade Commission (FTC) to monitor transactions within the groups to see if there is any bias in the buying patterns, and would like the commission to target a specific industry sector, say, car makers, and to study the behaviour of companies such as Toyota and Nissan.

US officials accept that the FTC has become more active - investigative staff has been increased by 7 per cent over the past year and the number of anti-monopoly rulings rose from 7 to 22 - but there is still a sense in Washington that the commission is selective about its targets and that the most influential Japanese companies are not investigated.

This US sense of corporate conspiracy, unfortunately, has been fuelled by the outcome of one successful FTC investigation. The commission found that Japanese companies had routinely rigged bids for work done at US military bases in Japan.

UK awarded Kuwait schools contracts

By **Mark Nicholson**

JOHN LAING International and the British Council yesterday signed contracts worth up to £40m ($69m) to supply Kuwait with equipment and advice to enable its schools, which were gutted during the Iraqi occupation, to reopen by September.

The contracts are among the largest so far won by British groups during Kuwait's reconstruction effort and some of the first designed to repair the emirate's social services.

John Laing will manage the procurement and installation of equipment for 205 schools, mainly to replace technical facilities looted from school laboratories. The British Council will offer curricular and technical advice to the Kuwait ministry of education.

The deal follows a visit to Kuwait in April of a consortium of British educationalists and industrialists, spearheaded by the British Council, after the Kuwait government had indicated it was placing a priority on opening its schools and universities.

The government viewed the resumption of normal education as essential if the thousands of Kuwaiti families who fled the invasion were to be encouraged to return to the emirate.

A team from the British Council will visit Kuwait next week to draw up specifications for the equipment to be provided under the deal. UK educational suppliers will be invited to tender for components of the contract.

CoCom nears pact on exports

By **William Dawkins** in Paris

WESTERN allies were yesterday evening nearing agreement, a day early, on the final details of a wide reduction in strategic export controls on technology sales to the Soviet Union and the former East bloc.

A meeting of sub-ministerial officials from the 17 countries of CoCom (Co-ordinating Committee for Multilateral Export Controls) was yesterday afternoon putting the finishing touches to a two-thirds cut in the number of export goods subject to vetting by CoCom.

The accord will replace the former CoCom list of 120 restricted goods with 10 simplified product categories. Almost any civil technology product outside the list can be sold freely to the east after late June or early July, when the new rules are due to have been put into effect by national export licensing bodies.

The so-called core list includes industrial products with potential military value like high speed computers, advanced telecommunications equipment and information protection devices, advanced materials and machine tools, sensoring systems, navigation and avionics equipment, marine technology and propulsion systems.

CoCom, which embraces all of Nato, minus Iceland but plus Japan and Australia, will continue to control exports of munitions and atomic energy products.

This fills in the detail of an outline liberalisation accord struck last June in recognition of the political reforms in eastern Europe.

Since then the Gulf war and the Soviet military's response to the upheavals in the Baltic republics have encouraged fresh caution within CoCom over the level of technology to be freed from controls, but not over the principle of streamlining the restrictions.

EC to put anti-dumping duty on sweetener import

THE European Community will impose anti-dumping duties on a cut-price low-calorie sweetener imported from the US and Japan, EC officials said yesterday, Reuter reports from Brussels.

The EC's executive commission has already slapped provisional duties on imports of the sweetener, Aspartame, from NutraSweet of the US and Japan's Ajinomoto.

EC ambassadors had finalised the decision, according to one diplomat, leaving it to be formally approved by EC ministers next week.

Under EC rules the provisional duties – $36 per kilo on the US imports and $41 on the Japanese imports – would lapse if EC governments did not decide to make them permanent within the next few days.

The duties, adding 70 per cent to the company's export prices, were designed to protect the Community's sole producer, the Holland Sweetener Company, which had complained of heavy losses.

NutraSweet and Ajinomoto sell in the Community through a jointly owned Swiss company. The EC imports 700 tonnes of the sweetener a year.

ARMS FOR IRAQ

Saddam's secret South African connection

A steady flow of illegal missile technology was exported from the US with full CIA knowledge

"I have been helping our US intelligence agencies throughout the 1970s and 1980s."

THAT seems an unusual statement for the former deputy chairman of a company listed on the London Stock Exchange. But then the man in question - Mr James Guerin – and Ferranti, the company he is accused of swindling – have been at the centre of a most unusual set of circumstances.

Now, it is clear, those circumstances included an arms trafficking ring which connected the US, South Africa, Chile and Iraq.

To those who knew him in his home base of Lancaster, Pennsylvania, set in Amish farm country, Mr Guerin seemed the ideal family man, churchgoer and philanthropist. In 1989, however, when Ferranti, the British defence company, found itself the victim of an arms contract fraud now estimated by US investigators to total $1bn, Mr Guerin became linked to one of the biggest corporate scandals in British commercial history.

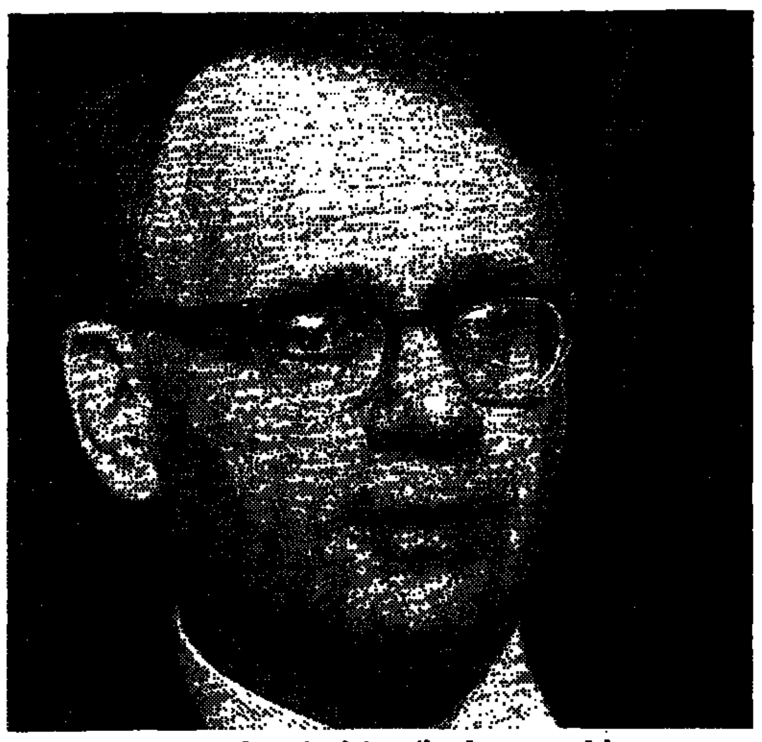
Ferranti blamed the fraud on International Signal and Control (ISC), a little-known Pennsylvania electronics business it bought from Mr Guerin in 1987. Ferranti paid $700m for ISC and made Mr Guerin deputy chairman.

Faced with a growing scandal, Ferranti swept aside its top management and brought lawsuits against a number of ISC executives, including Mr Guerin. Ferranti alleges that Mr Guerin overvalued ISC through a "stupendous conspiracy" involving inflated or non-existent contracts.

But Mr Guerin's defence to his friends in Lancaster was always that his company's activities were sanctioned by the US government. "He was constantly boasting about his connections in Washington,and about his contacts with the CIA," recalled one of the former ISC executives who will soon be indicted by a grand jury presently sitting in Philadelphia. Now, it seems, there was something in these claims.

In the US, a small army of prosecutors, law enforcement officials, Pentagon investigators, the FBI, the Internal Revenue Service (IRS),the Securities and Exchange Commission (SEC) and the Customs Service are trying to unravel the story. One senior member of the task force recently described the task as "quite frankly beyond our physical, budgetary or intellectual resources."

A joint investigation by the Financial Times and ABC News/ Nightline, drawing on interviews with US government officials, former ISC executives and other



James Guerin: centre of growing international arms scandal

'Advanced radar-controlled anti-aircraft equipment shipped by Mr Guerin's company to South Africa found its way to Iraq in time for the Gulf war'

James Guerin, linked to one of Britain's biggest corporate scandals, was at the centre of an arms-trafficking ring a joint Financial Times/ABC Nightline has discovered. **Alan Friedman, Lionel Barber, Tom Flannery and Eric Reguly** report from Washington.

sources, has established that:

● The Central Intelligence Agency (CIA)had detailed knowledge of regular, illegal shipments between 1984 and 1988 from the US to South Africa. The shipments consisted of US ballistic missile equipment.

● Federal officials say they have good reason to believe that some of the US ballistic missile technology sent to South Africa was shipped on to Baghdad, where it was used in President Saddam Hussein's missile projects.

● Senior British sources have confirmed that missile technology jointly developed by ISC and South Africa was offered for sale to other Gulf states. The sales, according to these sources,were blocked by Britain.

● Advanced radar-controlled anti-aircraft equipment shipped by ISC to South Africa found its way to Iraq in time for the Gulf war.

"Do you remember watching the anti-aircraft bursts from Baghdad on CNN that first night of the Allied bombing in January? That was some of the stuff which got to Iraq through the ISC-Gamma shipments to South Africa," said one US senior law enforcement official.

For the most part, however, Iraq appears to have made limited use during the Gulf War of sensitive equipment supplied to it. "Iraq appears to have got very little for its money" was one official's verdict.

● ISC cluster bomb technology was sent to Mr Carlos Cardoen, the Chilean arms dealer who is one of Baghdad's biggest suppliers. The transfer, in the form of blueprints, drawings and design technology, was carried to Santiago in suitcases in 1985.

● ISC and the Chilean secret police co-operated to build a cluster bomb factory in Santiago. The blueprints for this factory were then sold to Iraq by Mr Cardoen. ISC also shipped cluster bomb fuses to South Africa,from where they were shipped on to Iraq, by way of Chile.

One of the curious aspects of this clandestine trade is that South Africa and Israel, Iraq's arch enemy in the Middle East, have a growing relationship which includes a weapons exchange programme.

US officials explain South Africa's parallel trade with Iraq primarily as means for Pretoria to earn foreign exchange in the 1980s as it struggled to overcome a debt crisis and economic sanctions.

ISC's tangled relationship with US intelligence can be traced back to 1974 when Mr Guerin, working with the National Security Agency (NSA), the electronic eavesdropping agency, set up a front company as part of a US-sponsored covert operation.

Known as Project X, the operation's purpose was to ship advanced electronic sensors, optics and related equipment to South Africa – without the normal export licences – in an intelligence venture to supply listening posts to track Soviet submarines off the Cape of Good Hope.

Mr Guerin and the NSA set up a front company or "cut out" that gave the government "plausible deniability" – meaning that if the operation ever came to light the US government could offer a credible denial of involvement. The front company's name was Gamma Systems Associates.

The FBI later discovered that Gamma was a "mail and phone drop" at JFK Airport in New York. It was literally an address to which ISC equipment could be sent before being shipped with false descriptions aboard airliners bound for South Africa.

Gamma continued to operate as a sanctioned intelligence venture until 1977, when the newly installed Administration of President Jimmy Carter decided to call a halt to many clandestine operations. He also placed an embargo on US shipments of militarily useful technology to South Africa.

According to US officials, Gamma continued to ship electronics to South Africa for ISC in the early 1980s. This occurred,according to former senior Reagan Administration officials, in 1982-83, when South Africa began to develop a long-range ballistic missile capable of carrying a nuclear warhead, scouring the world for key components and testing equipment.

By then Mr Guerin had developed strong ties with Barlow Rand, the South African group that in the 1970s had lent him $2m to keep his company afloat.

Then in 1984 Mr Guerin approached the CIA and offered to act as an "eyes and ears" for the Agency. It was about this time that shipments (at times on a weekly basis) of sensitive equipment for long-range ballistic missiles began flowing to South Africa along a route through Gamma identical to the original intelligence channel.

Customers included Armscor, the South African government's main defence firm, and private companies in South Africa. Armscor yesterday refused to comment.

Court documents which include bills of lading, receipts and invoices as well as itemised shipping papers clearly label the items as not to be exported from the US without a licence.

The shipments included telemetry tracking antennae, which follow missiles in flight and pick up data such as fuel consumption, velocity and gravitational forces. Other items include gyroscopic equipment used for the guidance systems of ballistic missiles.

Among the most sensitive equipment shipped were photo-imaging film readers, necessary to determine the performance of missiles.

A former high-ranking US intelligence official with electronics expertise said the antennae and film reader, used together,would form the "backbone" of a system to develop medium-range missiles.

Some equipment could have been sold legally to South Africa under the umbrella of "dual-use" technology with both civilian and military applications. But most of the items exported by ISC were shipped without an export licence and in violation of the US embargo. ISC's sales abroad also violated the Arms Control Act which requires State Department approval of such munitions exports.

Throughout the critical period of illegal sales - from 1984 until November 1988 - ISC executives travelled regularly to South Africa to supervise the transactions.

Among the key ISC executives involved was Mr Robert Clyde Ivy, an electrical engineer and missile expert who was recruited by Mr Guerin while a consultant for Armscor in South Africa in 1977.

Several former ISC executives, including Mr Ivy, are preparing a "CIA defence" in which they will use the company's relationship with the intelligence services as a factor which justifies their activities. A similar defence is being prepared by General Manuel Noriega, the deposed Panamanian leader about to be tried for drug smuggling.

Law enforcement officials say that the mere existence of a CIA relationship would not mitigate the crime of illegal exports, but the larger question remains why the CIA would fail to halt such illegal shipments.

According to US officials who insist on anonymity, at no time did the CIA ever seek to halt the shipments or turn over its information to the FBI or other law enforcement agencies. Mr William von Raab, former Commissioner of Customs, questions this arrangement since it raises issues about the CIA's accountability and whether the agency in some sense colluded in ISC's ventures.

AMERICAN NEWS

US recession nearly over say business economists

By Michael Prowse in Washington

THE US recession is nearly over, claimed a group of US business economists yesterday, as figures from the Commerce Department showed an encouraging 2.9 per cent rise in orders for durable manufactured goods last month, the first increase since December.

The report, by the National Association of Business Economists, showed that more than 70 per cent of 58 professional economists – polled in early May – said the economy had already hit bottom or would do so by the end of June. However, more than a quarter did not expect the recession to end until the third quarter of this year or later.

The poll showed business economists united in expecting a slower than normal recovery from recession. The association's median forecast indicated growth at an annual rate of 2 to 3 per cent during the second half of this year and early 1992. This compares with an average growth rate of about 6 per cent in the aftermath of previous post-1945 recessions.

The rise in orders for durable goods follows other mildly encouraging signs, including a rise in retail sales in recent months, slightly increased activity in the housing market and the first hints that manufacturing production could be stabilising.

However, although orders figures for last month exceeded expectations in financial markets, such numbers for April are notoriously volatile. The increase last month failed to make good a 4.5 per cent drop in March and left orders 7.4 per cent lower than at this time last year.

The orders figures are attracting particular attention because they provide early warning of trends in capital spending. Some analysts have speculated that a decline in industrial investment, which slumped in the first quarter, could provide a second leg to the recession.

Mr Alan Greenspan, Federal Reserve chairman, cited weak March orders figures as a justification for the most recent cut in interest rates. He had said this week that the first sign of an economic turnaround would "show up in the order books of the major materials producers."

More than half the April increase in orders reflected increased demand for electronic components. Orders rose in all main industrial sectors except transportation, which fell by 4.5 per cent. Orders for non-defence capital goods (excluding the volatile aircraft sector) – which analysts regard as the single best guide to civilian investment trends – rose 3.5 per cent but remained more than 5 per cent below the level of a year ago.

The business economists' confidence that the US economy will soon revive is shared by Bush Administration officials. In recent days, both Mr Robert Mosbacher, Commerce Secretary, and Mr Richard Darman, Budget Director, have claimed a turnaround is under way.

Some economists, however, remain sceptical. Mr Philip Braverman, chief economist at DKB Securities in New York, said he saw no reliable evidence that the recession was about to end. He expects levels of personal and corporate debt unprecedented in recent decades to prevent recovery before the final quarter of this year at the earliest.

GENERAL Colin Powell, chairman of the US joint chiefs of staff and the country's senior military officer, has been reappointed to a second two-year term, in a spite of recent reports that he had initial reservations about the military strategy which President George Bush adopted in the Gulf crisis.

He and Mr Bush (left) are pictured above as the president announced Gen Powell's reappointment.

A new book, The Commanders, by Mr Bob Woodward of the Washington Post and heavily reliant on interviews with the general, reports the general as having favoured a strategy of containing Iraq, before the decision was taken last autumn to double the size of US forces in the Gulf.

Both Mr Bush and Gen Powell yesterday dismissed talk of any differences, though the president admitted that the general had set out the risks and was not rushing to commit troops to battle.

The expected reappointment of Gen Powell also ends what was always highly unlikely speculation that Mr Bush might choose him as his electoral running-mate next year in place of Vice-President Dan Quayle.

Congressional votes advance plans for bank liberalisation

By Peter Riddell, US Editor, in Washington

PROPOSALS to allow US banks to expand both geographically and into new activities have won the backing of a House of Representatives committee, though they face more legislative hurdles over the next few months.

The financial institutions sub-committee of the House Banking Committee has approved this week much more of the Bush administration's plan for a radical overhaul of the US banking structure than was widely expected a few weeks ago.

In particular, the sub-committee agreed to allow banks to open nationwide branch networks. At present, bank holding companies have to set up separately capitalised subsidiaries in each state. An amendment to make inter-state branch banking subject to approval by individual states was defeated by 24 to 12.

Both the Treasury and federal regulators believe that nationwide branches are the key to raising the efficiency and profitability of US banking, while leading to mergers among the 12,300 US banks.

The sub-committee has also approved proposals to allow banks to affiliate with securities firms, rejecting proposals from the securities industry which would have prevented securities affiliates from offering credit and investment banking services to the same customers. However, various restrictions were imposed to protect customers and limit the ability of banks to become involved in insurance.

On the other hand, members approved by one vote an amendment that would prevent such expansion unless banks meet standards of community investment by showing that they are satisfying local credit needs for housing and business.

These victories for the Treasury have been only partially offset by a decision to defer action on its call for an overhaul and simplification of the complex of agencies which regulate banks (in part also opposed by the Federal Reserve). This deferral is via the establishment of a task force to look at supervisory reorganisation.

Administration proposals to limit the number of accounts in any one bank to be protected by federal deposit insurance have also been rejected, as has the discretionary power to reimburse uninsured depositors in failed banks under the too-big-to-fail doctrine.

Moreover, Treasury proposals to allow commercial groups to acquire banks look unlikely to be approved this year.

Many of these proposals may be further amended in later stages of consideration by the House or in parallel debates in the Senate, though the latter has been more sympathetic to calls for comprehensive banking reform.

For all that, the prospects for wider reform have been advanced in recent weeks, despite earlier attempts by some Democratic leaders in the House to limit legislation this year to recapitalising the bank deposit insurance fund.

Washington to consult western allies on aid for Moscow

US wary over Soviet reforms

By Peter Riddell

THE BUSH administration is considering how the US and other western countries can assist Soviet economic reform, though it is unwilling to offer help until President Mikhail Gorbachev has firmly committed himself to a credible reform programme.

Mr Bush yesterday took a deliberate non-committal line, saying "all options are open." He said he wished to talk to other western leaders "to see what we can do to help genuine reform in the Soviet Union." The president stressed the US desire to move forward, but also its concerns about practicalities and the Soviet Union's creditworthiness.

In Congressional testimony yesterday, Mr James Baker, Secretary of State, said the US "continues to study various ways in which we can assist Soviet economic reform, but the usefulness of our efforts still depends, above all else, on the choices that the Soviets themselves make."

Senior US officials, in the State Department and the White House, have held talks this week with Mr Grigory Yavlinsky, who has prepared an economic assistance and reform proposal, known as The Grand Bargain, with a group of prominent Harvard professors. These include Mr Robert Blackwill, until last year the senior Soviet and European adviser on the National Security Council staff.

A Soviet delegation – headed by Mr Yevgeny Primakov, senior economic adviser to Mr Gorbachev, and Mr Vladimir Shcherbakov, a deputy premier – will visit Washington next week to discuss what Mr Bush has described as Mr Gorbachev's "new ideas on economic reform."

The most likely immediate US response is the provision of technical assistance, rather than large-scale financial aid, apart from farm credits already under consideration.

The Bush administration wants to assess the views of the Soviet delegation before it decides what can be done and whether Mr Gorbachev should attend the annual summit of the Group of Seven heads of government in London in mid-July. Mr Robert Zoellick, one of the main architects of US Soviet policy and the main US sherpa in preparing for the summit, met Mr Yavlinsky this week.

Falklands' relations with mainland raised

Argentine envoy calls for links

By Gary Mead

THE ARGENTINE ambassador to Britain, Mr Mario Cámpora, yesterday called for restoration of direct links between Argentina and the Falkland Islands in the South Atlantic. Sovereignty over the islands is still disputed by Britain and Argentina, which fought a war on the issue in April-June 1982.

At a meeting of the Anglo-Argentine society in London yesterday, Mr Cámpora expressed pleasure at the restoration last year of UK-Argentine diplomatic relations, but he described as "unfortunate" that "no progress has been possible in the relations between the islands and the Argentine mainland."

The ambassador added: "We have consistently made clear our will to rebuild the bridges but the response so far has been disappointing. I believe it is time – indeed long overdue – to find a new spirit."

President Carlos Menem, when he took office in Argentina in July 1989, agreed to place the dispute about sovereignty over the Falklands under a diplomatic "umbrella" – to give it a lower priority in Argentine foreign policy. In March this year, relatives of Argentine war dead buried on the islands were allowed a one-day visit to the Falklands.

Mr Cámpora's remarks yesterday appear to raise the matter in less diplomatic language than has been so recently. He said: "Isolation and intransigence help no-one. It is all the more regrettable when our efforts are ignored, or animosity is the only answer."

This public implication that British diplomacy has rebuffed Argentine efforts at restoring direct links with the Falklands, which enjoyed a regular air link with Argentina before the 1982 conflict, will please Falklanders but dismay those hoping that the matter was still low on the Argentine diplomatic agenda.

Surinam votes in army shadow

THE ARMY in Surinam is expected to continue exercising strong influence over government, regardless of the outcome of national elections to be held tomorrow, writes **Canute James in Kingston.**

The bloodless military coup last December in the former Dutch colony, on the north-east coast of South America with a population of 400,000, was followed by an interim government, headed by Mr Johan Kraag.

Army officers had charged that Mr Ramsewak Shankar, former president, had publicly insulted Mr Desi Bouterse, Surinam's military strongman.

Salvador talks for Venezuela

VENEZUELA is to be host for the next round of peace talks between the government of El Salvador and the central American country's left-wing rebels, the FMLN, writes **Joe Mann in Caracas.**

The negotiations will deal with a possible cease-fire in the conflict that has cost tens of thousands of lives in El Salvador over a decade.

There has been no announcement in Venezuela of a date, but the talks are expected within a few weeks. FMLN representatives are reported to include both political leaders and a rare appearance of commanders from the field.

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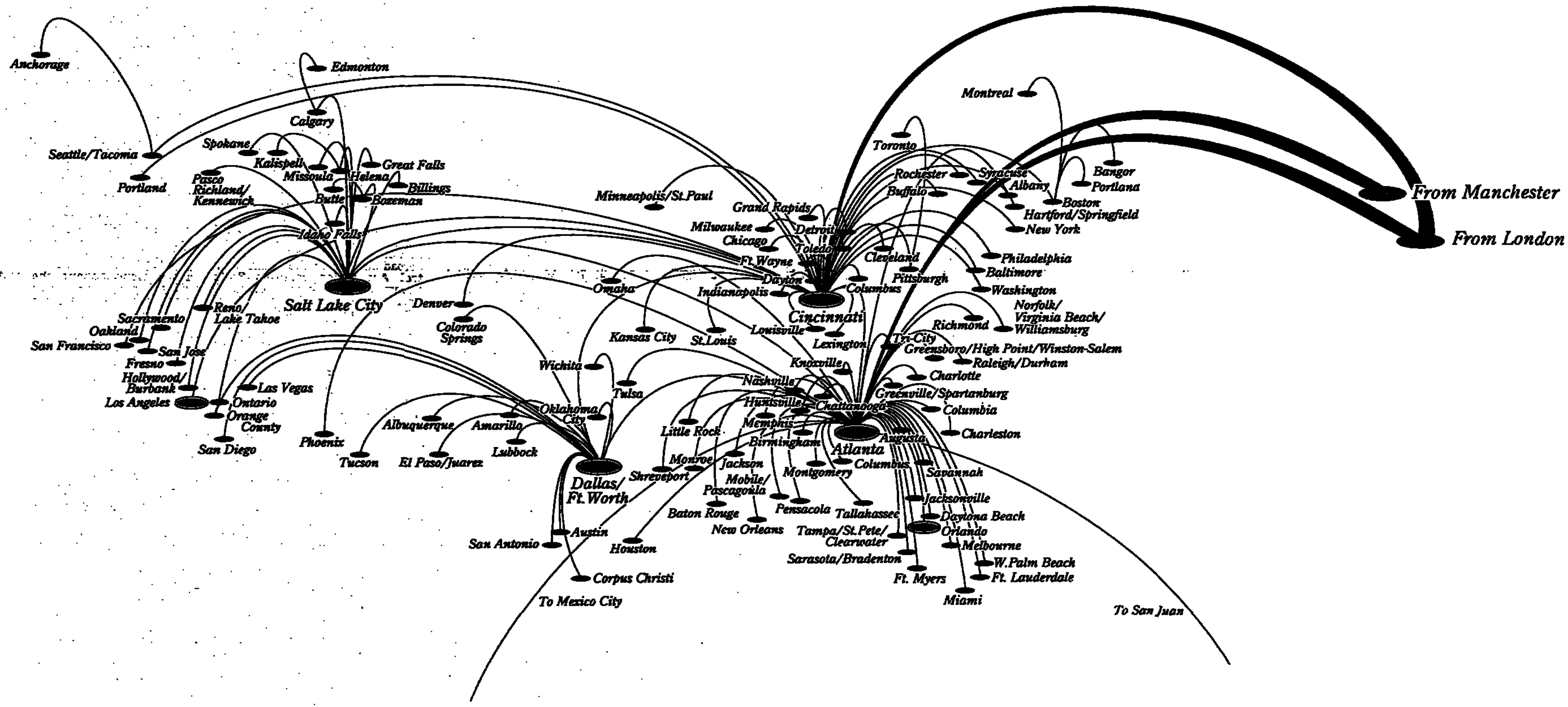

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UK NEWS

Major under fire over delayed tank order

By David White, Defence Correspondent

SIR DAVID Plastow, chairman of Vickers, the UK engineering group, has told the prime minister, Mr John Major, that Britain has made itself the "laughing-stock of the Middle East" by its indecision about ordering a new tank for the British army.

He has warned that if no decision was made soon on its new Challenger 2 tank Vickers would have to disband the engineering team working on the project.

Although ministers are thought to be agreed that the Challenger 2 should be chosen, Vickers has become increasingly irritated by what one senior executive called "dithering" by the government and the impact it has had on export prospects.

Vickers hopes to sell tanks to Saudi Arabia, Oman and the United Arab Emirates, and in the longer term to Kuwait, but says potential clients are waiting for British endorsement of the Challenger 2.

Germany is understood, meanwhile, to have turned down a request by the UK ministry of defence for the lease of Leopard 2 tanks as an interim replacement for some of the older tanks in the fleet of the British Army of the Rhine.

The Bonn defence ministry replied that it would only agree to the leasing proposal if Britain opted for the Leopard 2, in an improved version, as its new-generation battle tank.

Both the Germans and the other main competitors for the British contract, General Dynamics of the US, now regard this option as highly unlikely.

They believe that the praise heaped by senior British officials, including the prime minister, on the performance of the current Challenger 1 in the Gulf points to a certain decision in favour of its Challenger 2 successor.

The UK approach for the lease of tanks would have involved between 90 and 100 tanks to equip two three-squadron regiments. These regiments field 42 tanks each, but some spare tanks would be required. Despite the negative German response, further discussions are thought possible.

An announcement on the British tank procurement decision is not expected until mid-June. This would be nine months after Vickers' completion of a "demonstration phase" for the Challenger 2, under an MoD contract.

It is thought the government wanted to hold back an announcement until after a Nato defence ministers' meeting in Brussels next week, which will discuss plans for a British-led rapid reaction force in Europe.

The initial contract is expected to be for as few as 127 tanks, less than a quarter of the quantity originally expected, with further batches of 200 tanks later on.

A contract of this size would be worth about an initial £300m to Vickers.

General Dynamics declined to make a "conforming bid" in April but wrote to Mr Major offering to hold its previous unit price for the M1A2 Abrams tank and to give British industrial partners a significant share of export business for the Abrams.

Both Germany's Krauss-Maffei and France's GIAT Industries, which is proposing its new Leclerc tank, made fresh bids.

Shrinking deficit fails to allay fears over trade

AS fewer cargo ships unload foreign goods on Britain's quaysides, it has become more fashionable to say that the balance of payments is no longer a problem.

Like many fashions, this belief may not stand the test of time. Embedded in yesterday's trade figures was evidence that imports are rising again, while exports have been flat since the autumn and are set to remain low.

The deficit shrank from £20bn in 1989 to £13bn in 1990. Yesterday's announcement of an April current account deficit of £339m is within the Treasury's forecast of £6bn this year.

The opposition Labour party was quick to complain that Britain was slipping into the red. Meanwhile, Mr Mervyn King, chief economist at the Bank of England, says there is little agreement as to how much a "problem" the balance of payments is.

Some economists say a deficit simply means a country is spending more than it earns, which make people consume and borrow on optimistic assumptions about future output growth.

They point out that countries with large surpluses – Germany and Japan – have seen them dwindle since 1989 just as those with deficits – the US and the UK – have seen them shrink.

"It is a private sector problem financed by the private sector," Mr King says. This chimes with the argument that the closer the UK moves to economic and monetary union with Europe, the less of a problem financing its deficit becomes.

But for the many economists who feel that deficits still matter, there is plenty to worry about in the UK's exporting performance, in spite of the slenderness of the deficit of £1.7bn in the three months to April.

They argue that not only has the UK failed to live up to expectations that it would export its way out of recession, but its inability to do so speeded a downturn into a recession.

There are also growing fears that continuing slack export volumes, the high exchange rate and a slowdown in Germany will impede the UK recovery.

Professor Wynne Godley, of King's College, Cambridge, argues that failure to balance imports with exports "drives down domestic income and output to the levels at which trade does match."

Applying Sherlock Holmes's principle that it is a mistake to theorise without data, we cannot say such a convergence is about to happen. But the latest statistics do suggest that a deficit could grow to haunt the government just when it thought the problem had been obscured by plunging import volumes.

They indicate that the shrinking trade gap is the consequence of low domestic demand rather than supply-side improvements, and is therefore cyclical, not structural.

Economic recovery has been forecast for the end of this year, notably this week by Mr John Major. This has raised the worry that the upturn in consumer demand would produce a ballooning deficit.

The Treasury describes non-oil export volumes as "flat since autumn", with any improvement in the account produced by dropping imports. The trend in export growth is down to an annual rate of under 1 per cent from 6.5 per cent in the third quarter of last year. As from April, import volumes stopped falling.

On the evidence of last few months, the underlying trade deficit is now stuck at between £1.1bn and £1.3bn a month. Economists at Greenwell Montagu, the investment bank, say that "the significant improvement recorded in 1990 will not be repeated in 1991." In the first quarter if this year, exports (excluding oil and erratic items) were actually ½ per cent lower than at the end of last year, they note.

Barclays Bank says the marked slowdown in export growth helped transform the downturn into "outright recession." What happened to cause this collapse?

According to Mr Chris Dillow, of the Nomura Research Institute, exporters were hit by the recession, which meant cutbacks at home; then there was the gathering of recessionary forces outside Europe, which sharply reduced exports to the US – by 19 per cent in the three months to April. The flexibility to divert production to buoyant markets never materialised, he says. France and the UK were the slowest of the major economies to channel exports to the new Germany.

The US, which went into recession at the same time, fared better. Its export performance was cushioned by a weak dollar and sharp drops in unit wage costs. Between early 1985 and late 1990, US unit wage costs dropped 55 per cent; while the UK's rose by 17.8 per cent.

There is evidence that the UK switched to European markets. Export volumes to the EC rose 10 per cent in the three months to March, from zero in the three months before that. But with European markets set to weaken, few economists predict this trend to continue.

Rachel Johnson

Councils told to compete for inner city financing

By Richard Evans

LOCAL authorities representing some of England's most depressed inner city areas were yesterday urged by the government to bid competitively for funds to finance regeneration projects.

The councils are being asked by Mr Michael Heseltine, environment secretary, to put forward schemes to revamp squalid housing and industrial estates.

The 10 best schemes will be chosen by the end of the year to share £75m of government money on offer for 1992-93, but over £350m is expected to be made available for projects over the next five years.

The initiative, announced by Mr Heseltine at a London press conference, amounts to a big shake-up in the way cash is channelled for urban regeneration. No new money is being made available, but the initiative, called City Challenge, will seek to target money at specific projects rather than spread it thinly over a variety of schemes.

The 15 councils invited to take part are Barnsley, Birmingham, Bradford, Bristol, Liverpool, Manchester, Middlesbrough, Newcastle upon Tyne, Nottingham, Salford, Sheffield, Tower Hamlets and Lewisham in London, Wirral, and Wolverhampton.

Mr Heseltine said: "We now intend to enhance the effectiveness of our expenditure in urban areas in England...the new initiative will achieve this and improve the quality of our cities."

Bank governor weathers storm on pay

MR ROBIN Leigh-Pemberton, the governor of the Bank of England, who found himself yesterday at the centre of a furore over his 17 per cent pay rise last year, might be forgiven for feeling a little aggrieved, writes Neil Buckley.

He took a pay cut from £99,585 to £72,545, or 27 per cent, when he moved to the Bank of England in 1983 from his post as chairman of National Westminster Bank. Had he stayed put, his salary last year would have been £321,225, more than twice what he earned as governor – even after his hefty pay rise.

His "emoluments, excluding pension contributions" was £155,019 last year – up from £132,558 in 1989.

Mr Leigh-Pemberton was unrepentant yesterday about the pay rise, which has attracted criticism given that the Bank is calling for pay restraint. "I practice what I preach. Look at the figures for the last three years," he said.

In the previous two years, his pay rises had been more frugal at 4.3 per cent and 3.9 per cent, well below the growth in average earnings in the UK. However, this was preceded by a 22.9 per cent leap in 1986-87, far outstripping the rise in average earnings of 7.8 per cent.

Mr Leigh-Pemberton's pay rises have exceeded the rise in average earnings in four of the last seven years. He is also one of the higher earners in British public service.

And while his pay is less than Mr Karl Otto Pohl, outgoing president of the German Bundesbank, who is said to earn DM600,000 (£201,850), it is much more than that of Mr Alan Greenspan, chairman of the US Federal Reserve Board, who earns only $125,100 (£72,300).

In comparison with many UK company chairmen and chief executives, however, the governor is a relative pauper. Sir Denys Henderson, chairman of ICI, earned £448,000 in 1990 (less than the £514,000 he earned 1989), while the chief executive of Prudential Corporation, Mr Mick Newmarch, made £543,678.

Many company chiefs' earnings are also boosted by share dividends. Mr David Sainsbury, deputy chairman of J. Sainsbury, had a salary of £220,000 in 1989 but picked up £20.6m in dividends.

● Ms Marjorie Mowlam, Labour's City spokesman, yesterday attacked the size of directors' pay rises, Simon Holberton writes. She said that the "directors' bonanza" merely reflected the "insatiable appetite of corporate greed".

Many employees were having to accept pay cuts to reflect the declining returns to shareholders but it appeared that many directors were exempt from any cuts, she said while publishing a list of 21 companies where the remuneration of directors had outstripped the growth in earnings.

"The chief executive of Royal Insurance – which lost a staggering £187m in 1990 – saw his pay boosted by a comfortable 20 per cent," Ms Mowlam said.

Editorial comment, Page 16

Travel association axes top executives to reduce costs

By David Churchill, Leisure Industries Correspondent

THE Association of British Travel Agents (Abta) yesterday axed its director general and other senior management as part of a cost-cutting exercise following the failure of several travel companies earlier this year.

The decision on the redundancies, which are expected to save at least £500,000 a year, was taken by Abta's national council.

Those being made redundant include Mr David Epstein, Abta's director general, Mr Paddy Lewis, his deputy, and Mr David Hirst, director of public affairs.

Executive responsibility for Abta's affairs will now be in the hands of the part-time elected officers of the Association, including Mr John Dunscombe, Abta's president.

Cutbacks at Abta's central London headquarters had been expected following its cash crisis earlier this year after the failure of several school tours holiday companies and the collapse of Exchange Travel, a leading travel agency.

The changes at Abta have also fueled speculation about a change in Abta's role under new legislation due next year.

The Department of Trade and Industry is due to publish within the next few weeks a consultative paper on how to implement the EC directive on package holiday travel. This calls for a consumer protection system to be in place by the end of 1992.

London carves up areas of North Sea for exploration

By Deborah Hargreaves

THE government yesterday awarded North Sea exploration acreage that could contain 6bn barrels of oil or 16 trillion cubic feet of gas when it announced the results its 12th offshore licensing round.

Mr John Wakeham, the energy secretary, announced the award of 74 exploration blocks after receiving the largest number of applications in 10 years. For the first time, the government carved up the deep-water region west of Shetland, where it awarded 6 blocks for exploration.

Some £5bn of investment is expected for the North Sea this year and seven projects have already been announced, he said. This compares with 18 projects last year at a total investment of £3.5bn.

Conoco, the oil arm of the DuPont chemical company, received the highest number of awards of 10 licenses covering 13 blocks. Texaco was the only current North Sea operator not to receive any acreage and British Petroleum did not figure prominently in the awards.

Six tranches of acreage were awarded in the frontier area to groups of leading oil companies. The first wells in this hostile, challenging environment could be sunk after three years when companies have completed geological surveys. After that, they can hold on to frontier blocks for another 6 years without drilling before relinquishing their right to it.

UK NEWS

Rolls-Royce withdraws dismissal notices

By Michael Smith

ROLLS-ROYCE, the aerospace group, withdrew dismissal notices to 34,000 workers yesterday after threats of union legal action and widespread employee anger.

The company denied it had climbed down over the notices, which were sent out two weeks ago, saying they were a legal technicality to implement a six-month pay freeze.

The affair, however, is seen by industrial analysts as a public relations mistake which will do little to help the company in forthcoming negotiations over 6,000 job losses.

The withdrawal of the contract termination letters was part of a deal reached yesterday with unions, including the MSF general technical union which had threatened High Court action for alleged breach of contract.

As part of the deal, the MSF has withdrawn from all legal proceedings. Rolls-Royce agreed to enter early negotiations with unions on its proposed pay freeze which it said it still wanted to implement.

When Rolls-Royce sent out the dismissal letters it said it had no wish to see workers leave the company as a result. The contracts would be replaced by similar ones, varied to remove entitlements for pay increments rewarding service, age and skills.

The MSF challenged that a breach of contract had occurred because of a failure to consult it and other unions properly.

Rolls-Royce believes it has acted legally in sending out the letters. "The letters were a means of instituting a total pay freeze. If we are able to achieve that through negotiation, the letters become unnecessary," a spokesman said.

The company will today meet shop steward representatives of both blue and white-collar workers

The main issue at today's meeting is likely to be job losses which could lead to the first compulsory redundancies for 20 years at the company.

Concern grows at profits of privatised monopolies

By Charles Leadbeater and Clare Pearson

A RECORD £3bn pre-tax profit at BT, the national telecommunications operator, and the prospect of strong profits from water companies yesterday threatened to provoke growing controversy over whether privatised monopolies are being regulated tightly enough.

The 14 per cent increase in pre-tax profits from BT, formerly British Telecom, was greeted by opposition Labour MPs and consumer groups with calls for further price reductions in areas where BT has a monopoly and more competition.

The row over BT's profits will put added pressure on Sir Bryan Carsberg, the director general of Oftel, the telecommunications industry regulator, to take a tougher line with BT over the prices it will charge for other competing operators to gain access to its network.

Separately, Mr Ian Byatt, director general of the Office of Water Services, became the latest privatised industry watchdog to flex his muscles when he issued a strongly worded warning to water companies, responsible for distribution and supply, not to deliver high profits and big returns to shareholders at the expense of customers.

Mr Byatt cautioned the 10 companies in a letter which was put in the post just as Yorkshire Water kicked off what seems certain to be a bumper season of water industry annual results with a 12.6 per cent increase in pre-tax profits in northern England.

Byatt: warning on profits

He said companies could expect questions from customers and regulators if their dividends looked excessive.

This year's charge increases in the water industry were based on last November's retail price index, which allowed increases averaging about 15 per cent, while the slowdown in the economy has reduced costs.

Mr Byatt's intervention comes only a month after the Office of Gas Supply successfully completed a long campaign to press British Gas to accept a five-year agreement which will limit price rise to households to less than the rate of inflation.

BT's record profits, which were achieved mainly through cost cutting in the face of falling call volumes, prompted the Telecoms Users Association to call for further cuts in tariffs so that customers should benefit from investment to modernise the telecommunications network.

The TUA called for Oftel to be particularly vigilant when negotiating later this year over BT's freedom to vary prices within an overall formula designed to limit price increase to the retail price index less 6.25 per cent.

BT responded to the criticisms by arguing that its quality of service had reached new highs, with only one call in 200 failing due to a fault on the line. It said cheap rate local calls were 50 per cent cheaper than they were in 1981 after inflation was taken into account.

Meanwhile, the National Communications Union, the main trade union at BT, said it was seeking an urgent meeting with the company to discuss the loss of almost 19,000 jobs last year, a far higher figure than BT had predicted.

Prince unveils plans for square

THE Prince of Wales yesterday unveiled the long-awaited plans for an £800m redevelopment of Paternoster Square, the site immediately to the north of St Paul's Cathedral in the City of London, writes Vanessa Houlder, Property Correspondent.

The site has been the subject of fierce controversy after previous modernist plans were dropped as a result of criticism from Prince Charles.

The latest designs are neo-classical in style, and have attempted to restore much of the historic pattern of streets and lanes that existed before the area's destruction during Second World War bombings by German aircraft.

The designs contrast sharply with the modernist proposals put forward in an international architecture competition organised in 1987. The winning design, by Arup Associates, was shelved after Prince Charles, in a Mansion House speech, described the competition as "deeply depressing" and "demoralising."

The scheme comprises over 80 shops and restaurants and 630,000 sq ft of office space in a traffic-free area around a central square. It restores the pedestrian access into Paternoster Square to ground level.

The development will be carried out by Paternoster Square Associates, which is a partnership between Greycoat, a UK developer, Park Tower Group of New York and an affiliate of Mitsubishi Estate Company, a Tokyo-based developer. The partnership bought the site in November 1989 for £160m from the Venezuelan Organización Diego Cisneros.

Work on the project is expected to begin after the planning stage, which are expected to take nine to 12 months.

Background, Page 17

BRITAIN IN BRIEF

Thorn to close plant in South Wales

Thorn EMI is to close its light-bulb factory in Merthyr Tydfil, South Wales, within the next 12 months with the loss of 500 jobs.

In what would amount to a twin blow to the town, Hoover, its largest manufacturing employer, is expected to lay off more than 300 people today after a vote in favour of strike action on June 3.

Merthyr already suffers from a 13.7 per cent unemployment rate compared with 8.5 per cent for Wales as a whole.

The closure of the 44-year-old plant, which at present produces 60m bulbs a year, should be completed by midsummer 1992.

Tories accused over Europe

Mr Paddy Ashdown, Liberal Democrat leader, has accused the Conservative government of avoiding a debate on European integration through fear of bringing Mrs Margaret Thatcher back into the Tory fold.

Speaking in Yeovil, south-west England, Mr Ashdown said the present prime minister's biggest mistake had been to "duck" debate on European monetary union (Emu).

"The most important decisions about Britain's future are being taken with almost no public discussion," he said. He believed Conservatives feared Europe was the issue that would bring Mrs Thatcher back into mainstream politics. "That is why John Major is running scared from any public debate about our future role in Europe."

Colin Beere

Staff of Harrods, the Knightsbridge department store in London, protest outside the main entrance yesterday. The lunchtime protest was later halted by shop stewards of Usdaw, the shopworkers' union, who warned the demonstrators that involvement could make them liable to dismissal.

The action was taken over Harrods' imposition of a pay freeze. Usdaw said it was considering holding a strike ballot after the management had turned down its proposals for pay increases later in the year.

PO says strike largely ignored

A strike call by leaders of the Union of Communication Workers at selected main post offices and over the next two days was "largely ignored" by the union's members on its first day, according to Post Office management.

The UCW's action was called after pay talks broke down: union negotiators have rejected a 7 per cent offer. An all-out four-day national strike from Wednesday next week has been called for all 12,000 UCW members employed at crown post offices.

The union itself said over 80 per cent of the membership had stayed away from work but some post offices had been kept open by supervisors and a minimum number of counter staff. "In Glasgow, for example, 305 members out of 320 were on strike. We are very pleased," said the UCW. Main post offices in Glasgow in Scotland, Birmingham in the Midlands and north and west London were targeted for yesterday's action.

Co-operation in EC welcomed

A new mood of co-operation in the European Community had replaced the exacerbation of differences between member countries, according to Mr Tristan Garel-Jones, the foreign office minister.

Speaking in a debate on Franco-British relations Mr Garel-Jones said EC countries were seeking to accommodate each other and were finding common ground as well as fighting for national interests.

1,000-year-old body found

Experts are examining the remains of a 1,000-year-old human body uncovered on the banks of the River Thames. Archaeologists made their find during a routine excavation on the site of a new office development. The discovery of the well-preserved young person's body near Southwark Bridge in the City of London is thought to be unique.

Labour attacks directors' pay

Ms Marjorie Mowlam, opposition Labour spokesperson on financial affairs, has attacked the size of pay rises which directors have awarded themselves.

She said the "directors' bonanza" bore no relation to the benefits received by shareholders but merely reflected the "insatiable appetite of corporate greed."

FT cuts salaries

The Financial Times has cut the salaries of a group of male print workers at its London Docklands plant by 13.9 per cent after being told that it could face an equal pay claim from women workers doing similar jobs for less money.

The cut to a salary of £21,100 for 36 assistant press and publishing technicians has been compensated by a payment of £2,850 this month and a future "buy-out" of the higher salary of £6,412.

MANAGEMENT

Lloyds takes the bit between its teeth

The bank is hoping to regain its throughbred image by cutting staff and selling assets. David Barchard reports

Is Lloyds, the black horse bank, still the thoroughbred of the British banking industry?

A year ago such a question would have been unthinkable. For several years, Lloyds' message to the market has been that although it is the smallest of the Big Four clearing banks in terms of assets, it is also the bank most clearly focused on the two goals of profitability and shareholder value.

But in February, Lloyds' quality image was severely dented by a poor set of 1990 results – though they attracted limited attention in the welter of even worse figures from some competitors.

Just over half of pre-tax profits of £591m came from a single subsidiary, Lloyds Abbey Life, the insurance group which it bought in 1988. By contrast, profits from UK retail banking, the area on which Lloyds has concentrated most of its attention, slumped from £591m to £168m, after a massive charge of £487m for bad debts.

Almost equally embarrassingly, despite several years of aggressive cost cutting, Lloyds' cost-income ratio for the group, excluding Lloyds Abbey Life, was estimated by analysts to have risen from 64.5 per cent to 69.5 per cent, the third worst showing in the sector.

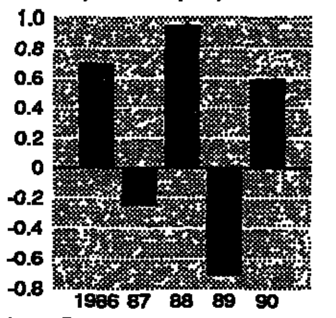
Yet for several years, Lloyds has been pursuing clearly defined policies designed to pilot it through what it expects will be crisis years for the banking sector in the 1990s.

"We could see that things were going to get tougher in the sector," says Brian Pitman, chief executive. "We believe that the strong will get stronger, and that the weakest will go to the wall. If banks don't face up to realities, their survival must be in doubt. Banks have got to generate enough profit both to service their dividend and for growth."

Pitman's early years as chief executive at Lloyds – he took the helm in 1983 – came in a period when the bank had been battered by Third World debts. By making aggressive provisions for several years, Lloyds has whittled away a much heavier debt burden than any other UK bank except Midland. But even after setting aside £3bn, Lloyds still has just under £1bn of unprovided Third World debt.

Lloyds Bank

Pre-tax profit/loss (£bn)



Source: Datastream

In 1986 Lloyds failed to take over Standard Chartered Bank. Since then Lloyds has been resigned to trying to be a smaller but nimbler entity than its competitors, concentrating on core retail banking activities in the UK.

True to his lights, Pitman has steadily sold off those activities which he regards as destroyers of value. "We sold business at a high premium, getting prices which would be difficult to repeat," he says.

The goal is to raise return on equity by moving away from capital-intensive business, though Pitman says Lloyds is still interested in corporate business when it can make a good return. In pursuit of this strategy, the group has withdrawn from markets such as North America, Portugal, Bahrain, and latterly some of its smaller operations in the Far East in China, Hong Kong and Singapore.

When Lloyds pulled out of the Eurobond and gilt-edged securities markets in 1987 the bank suffered a strategic setback, abandoning its hopes to build Lloyds Merchant Bank into the sort of investment banking arm that BZW became for Barclays.

Pitman recalls the taunts that Lloyds was falling back on "Fortress UK" and was in effect turning itself into a glorified building society. But, he says the retreat had little effect on its relationship with corporate customers.

At home, Lloyds – like all its main competitors – has closed branches and cut staff to reduce its costs. It shed 4,000 staff last year and plans to reduce its workforce by up to another 2,000 this year. Last year it moved its retail banking headquarters out of London to Bristol, cutting the cost per square foot of its premises from £50 to £20.

"We are not going to see the income growth in the 1990s that we saw in the 1980s. So the important thing is getting the cost line down," says Colin Wilks, chief financial officer.

Throughout the 1980s, Lloyds proved to be the innovator *par excellence* in the UK retail banking market, aggressively forcing the pace of change. Borrowing the idea from the US, it went into the estate agency business several years ahead of the insurance companies. Black Horse, its estate agency chain, now part of the Lloyds Abbey Life group, cut its teeth earlier than its competitors and suffered less badly in the housing recession as a result. Last year, Black Horse reported a £12.7m profit; it cut 77 outlets after a loss of £5.3m in 1989.

In the credit card market Lloyds forced the break-up of the Access cartel by de-camping to Visa, the rival payment system, and then forcing the large banks to compete to offer credit card services to retailers directly. In 1989 it was first to introduce an interest-bearing current account.

The boldest stroke of all was the purchase of a 57 per cent stake in Abbey Life in a £1.1bn merger. By winning the support of Michael Hepher, Abbey Life's chief executive, Lloyds was able to avoid a full bid. Instead it threw in its own life assurance, estate agency, unit trust and insurance broking arms, and its finance house, Lloyds Bowmaker.

Sir Jeremy Morse (left) and Brian Pitman: concentrating on core retail banking activities

The plan was to combine Lloyds Bank's branch distribution network and 6m customer base with Abbey's experienced direct salesforce, while in the longer term developing Lloyds' Black Horse life subsidiary.

In some quarters Hepher is now tipped as a possible successor to Pitman. But the question remains: without the Lloyds Abbey Life contribution, how strong is Lloyds' core banking performance?

Colin Wilks, Lloyds' chief financial officer, says that analysts' attempts to strip out Lloyds Abbey Life are misguided because the integration of the bank and the insurance group is irrevocable. "There is no case for excluding the life assurance numbers from our cost/income ratio. The underlying trend is going in the direction we want it."

Whatever one makes of this slightly disingenuous reply, the fact remains that Lloyds' banking operations have taken some severe hits in the recession – the worst of which was the collapse of the International Leisure Group to which Lloyds had lent £80m.

At Lloyds' annual general meeting this year, Sir Jeremy Morse, the chairman, told shareholders that it was the worst loss in real terms that the company had sustained since 1927. Wilks points out that Lloyds took action early. "We got most of the provisioning on ILG done in 1990," he says.

Lloyds' domestic bad debt provisions of £732m in 1990, up from £198m the previous year, are seen as a sign of strength by Wilks rather than a symptom of inferior asset quality.

"As a bank we have always adopted the line that we must be fully provided," he says. "We suspect that maybe we have gone over the top a bit this year with provisions." Others suspect that Lloyds may have been too aggressive in lending to small and medium sized companies in the past two years.

The bank itself believes that it is a jump ahead of its competitors. "Once we get over the hump an improved interest margin is in place. We came into the cycle earlier than the others in 1989 with high provisions. It may be that we will get out of it earlier too," Wilks says.

Resuming strong profits growth will be essential if Lloyds is to keep its pledge to shareholders of a sustained return on their investment with a strong dividend and a buoyant share price.

Pitman would like to see Lloyds earning a post-tax return of 18 per cent on shareholders' equity. That is going to be difficult to achieve in the immediate future. In 1990 the actual figure was 12.6 per cent and Sir Jeremy has warned that 1991 is unlikely to be much better. In these circumstances, how much longer will Lloyds – whose net assets have fallen by just under a fifth in the past four years while dividends have risen by over 90 per cent – be able to sustain a dividend increase?

"A large part of Lloyds' future dividend paying ability is dependent on Lloyds' banking operations, and the money is not there to the extent that people think it is," says Alison Deuchars, an analyst with Smith New Court. She adds: "But on balance we think that Lloyds will find a way to pay a substantial dividend in terms of the sector."

Lloyds' dividend cover – the number of times the dividend will go into attributable earnings – has fallen from four times four years ago, to 1.5 times. In 1990 the dividend went up by 15 per cent, but it was largely paid for out of sales of subsidiaries.

"The disposals helped us out last year, there is no question about that. But we were sensible enough to sell things that were generating a profit. In the main we are generating the cash we want," Wilks says.

He remains optimistic that the bank is pulling ahead. "If you look at the level of profits that NatWest and Barclays made in relation to the assets on their book, we were nearly twice as profitable as NatWest and well ahead of Barclays," he says.

On this reckoning, Pitman's strategy of emphasising retail banking is yielding the hoped-for results and the black horse is still galloping ahead of the herd. But the next few years will show how long its stamina can be sustained and no business, not even a bank, can continue selling assets to pay dividends indefinitely.

Previous articles in this series were published on April 19, 29 and May 15.

Thumbs down for the quick deal

Simon Holberton on long-termism

Hanson's stalking of ICI has given the debate about "short-termism" in Britain an edge it lacked throughout most of last year. It was fortuitous, therefore, that in the last of this year's London Business School Stockton lectures, Peter Grassmann, group chief executive of Siemens Medical Systems, last night addressed the apposite issue of "time and corporate ownership" in Germany.

UK industrialists have tended to cast an envious eye in the direction of Germany (and Japan) where the nature of the relationship between owners and management is seen to favour long-term industrial development. They will find much to support their view in Grassmann's lecture.

German industry, he said, is geared towards long-term relationships and these matter more than "the quick deal and short-term gains".

The business environment is also conducive to hiding profits in company accounts, investing, and realising that the payback on investment can take time.

Grassmann attributes this attitude partly to cultural influences – ranging from the respect with which the Germans view engineering and technology, to the need to rebuild the Federal Republic after the Second World War - and the structure of the German capital market, particularly the role of the banks.

Although the banks own just eight per cent of German companies directly, the decision of private investors (who own 20 per cent of company shares in Germany) to allow the banks to vote their stock gives "the banks quite some voting power [and] also provides desired stability for long term investment". This is bolstered by the division of control represented by the separation of supervision from management control.

Yet, German industry has not been impervious to developments in Anglo-Saxon capital markets or management orthodoxy.

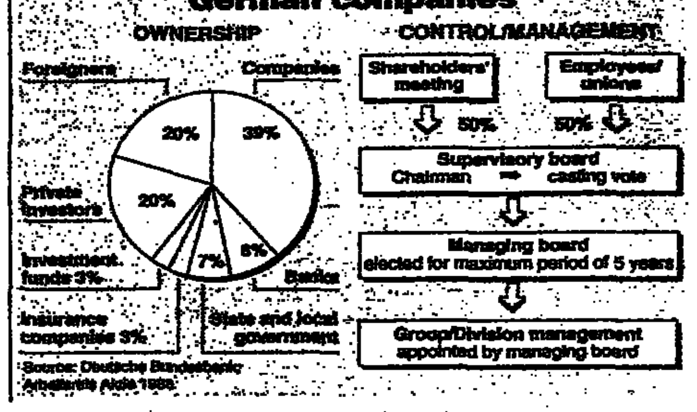
Foreign ownership – mostly US and UK investment institutions – of German equities now stands at 20 per cent and, in some cases like Siemens, 35 per cent; companies like Siemens have embraced "shareholder value" as a corporate aim.

Siemens reorganised its management in 1989. Before that, the company's chairman, its chief executive and all of its seven group presidents had a technical background. Now the chairman and almost half of the 15 group presidents have a non-technical and mostly financial background.

After 20 years of holding its dividend at DM8 a share it has begun to declare dividends that bear some relation to the growth in profits. The company's objective now is one of generating "steady, high earnings". "A sustained earning power is the most obvious expression of the corporation's level performance and its successful management," he said.

Clearly the world for German companies is changing. Is Siemens becoming more short-term? Grassmann said not; "reasonable long-termism" survives. But it is qualified.

German companies



Source: Deutsche Bundesbank, Arbeitskreis Aktie 1989

THE PROPERTY MARKET

Optimism at Canary Wharf

By Vanessa Houlder

The morning mist that occasionally shrouds the 800ft tower at Canary Wharf is an apt symbol of the confusion about the future of the £4bn project.

Rumours constantly circulate concerning the development's finances, the terms of its leases, the deals being negotiated and the time it will take to build and let each phase of its 10m sq ft.

These rumours came to a head this week when it was suggested in the press that the slump in the London property market had forced Olympia & York to halt work on the next phases of the project.

The unprecedented amount of surplus office space in Central London and falling rents (which are as low as £10 per sq ft on the Isle of Dogs and £45 in the City for top quality space) gave some plausibility to the story. Even if Canary Wharf is charging an equivalent of £20 a square foot after concessions, as rumour has it, its competitive advantage against the City has been eroded. Moreover, many would-be tenants are finding it difficult to dispose of their old leases – and O&Y is only prepared to take on these old leases if the sums add up.

The developer emphatically denies the story. Phase 3 is likely to start construction next summer, says Mr Michael Dennis, who is in charge of O&Y's London operation. (As some £50m has already been spent on excavation and laying foundations of phase 3 and phase 4, the timing is not dictated by the expiry of the Enterprise Zone status of the Isle of Dogs.)

However, he does not rule out a slippage of a few months. "The intention is to get ahead in that period, but we will see how we go on the marketing. You don't make a decision before you have to."

So far, the only letting deal that has come to light concerns Still Price Lintas, an advertising agency which signed up in mid-April.

Mr Dennis is not downhearted. He still reckons that Canary Wharf should let another 600,000 to 700,000 sq ft by the end of the year. Negotiations are taking place with companies involved in advertising, marketing, law, publishing, oil and gas and insurance. O&Y is also trying to persuade the Department of the Environment to move to Canary Wharf.

Olympia & York's intention to press ahead is a disappointment to other London landlords, whose own fortunes would be helped enormously by a reduction in the space coming on to the market. Instead, they have to fall back on the argument that Canary Wharf is unsuitable for tenants because it is out of reach of central London.

This characterisation bears no resemblance to O&Y's own perception of Canary Wharf, which it sees as modern rival for office headquarters to the West End and the City.

Nonetheless, O&Y has to persuade tenants about its accessibility to the centre. Public transport, which has been its Achilles heel, is being improved by more investment in the riverbus and the Docklands Light Railway, including its extension to Bank.

O&Y also has to overcome peoples' attachment to traditional locations. The tendency of similar businesses to cluster along with their customers and suppliers has created invisible ties linking industries to particular parts of London.

These ties may have been eroded during the 1980s, when technological change and the restrictions in the central London property market caused companies to go beyond traditional boundaries in their search for large, modern buildings. "London's property market is breaking from its past," said Salomons, the US investment house, in a study last summer. "The property adage of location, location, location has now become product, product, product," it says.

This argument is supported by the way financial services companies spilled out of the City into places as far afield as Victoria and Hackney.

The banks' traditional argument that "proximity to the Bank of England is of paramount importance" (the City Corporation, November 1984) was overturned in 1985, when the Governor of the Bank of England said in his Mansion House speech: "perhaps the shift... from personal to electronic communication has altered the balance of the argument".

If the advent of electronic communication means that companies are prepared to sacrifice face-to-face contact, it amounts to a complete reversal of the rules about the evolution of London. Traditionally, London has pushed out its boundaries gradually. "No one makes giant steps for mankind in property," says Stuart Lipton, the founder of Stanhope Properties.

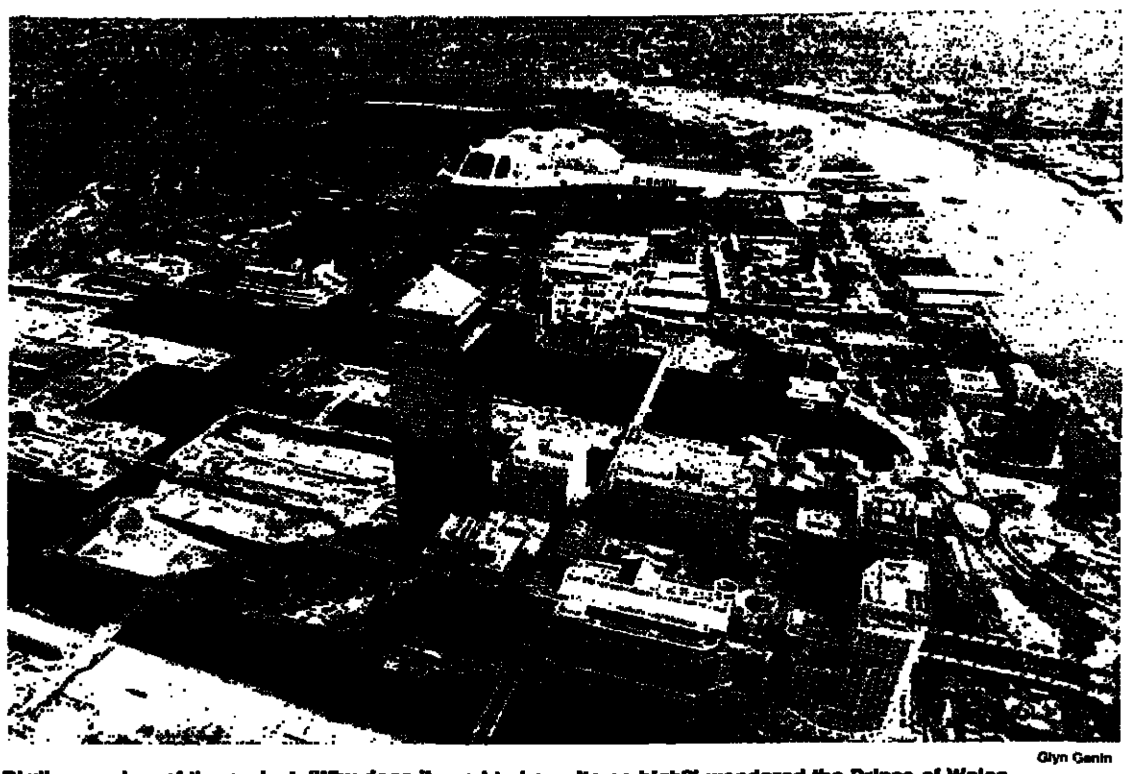
The remoteness of Canary Wharf – separated from the City by large tracts of brutalist housing estates – may perhaps have parallels with Continental centres like La Défense in Paris, but it contrasts sharply with previous (and highly successful) attempts to expand London and New York. O&Y's World Financial Centre in New York is three minutes walk from Wall Street and Stanhope's Broadgate is walking distance from the Bank of England.

The fact that nearly all Canary Wharf's tenants are North American has prompted speculation that UK companies are particularly conservative about their choice of location. Implicit in this argument is a suspicion that Docklands developers such as O&Y have suffered because they are not part of the UK property establishment. Mr Robert Tassell, managing director of the Swedish-owned NCC which is building a business park in the Docklands, believes that its task would be easier if it were British.

"Had it been MEPC [the developers and investors] doing Canary Wharf, then the perception would have been quite different. People would not have questioned their judgment," he says.

From the outset, Canary Wharf's architecture (by Cesar Pelli and SKM) has had detractors ("an awful great Stalinist block", said Ken Livingstone. "Why does it need to be quite so high?" queried the Prince of Wales).

As the buildings materialise, they are winning more fans. The details, the quality of the materials, the careful layout and the imaginative landscaping are impressive. On a sunny day, a visitor making the 10-minute trip by the Docklands Light Railway may find the glittering expanse of Canary Wharf a stunning climax to the journey.



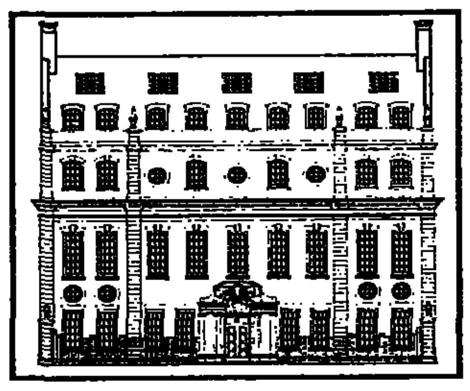
Glyn Genin

Bird's eye view of the project: 'Why does it need to be quite so high?' wondered the Prince of Wales

RENTAL GROWTH (%)

	Retail	Office	Industrial	All Properties
Year to March '91	3.2	0.5	4.9	2.5
Quarter to March '91	0.2	-1.2	0.5	-0.3
Month of March '91	0.0	-0.3	0.1	-0.1

Source: Investment Property Databank



INTERNATIONAL PROPERTY

LEGAL NOTICES

NOTICE OF APPOINTMENT OF ADMINISTRATIVE RECEIVER

WARRINGTONS PLC

WYCHNOR PARK COUNTRY CLUB LIMITED

COMPANY NOTICES

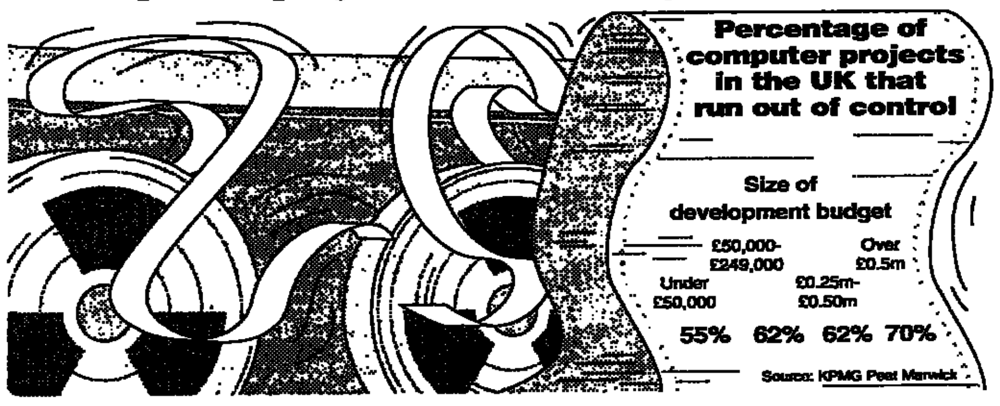
NEDERLANDSE UNILEVER BEDRIJVEN B.V. formerly VAN DEN BERGH'S EN JURGENS' FABRIEKEN N.V.

CLUBS

PERSONAL

TECHNOLOGY

Della Bradshaw explains how to stop a computer development project from running out of control



In pursuit of an untamed beast

It became apparent to the Foreign Office in London in September 1988 that the company involved in developing its office automation system was running into problems. When the department realised that the company was not able to complete the project in a reasonable timescale it decided to stop the project altogether.

Fortunately for the taxpayer, the Foreign Office got more than half of the £3m paid to the contractor back. But all the department got for its money was a two-year maintenance contract, documentation and some small pieces of software – not the powerful Folios (Foreign Office London Integrated Office System) software which was intended to distribute information around the whole department.

Such a situation is all too common, both in government and the commercial sector. Numerous computer projects run over budget, over timescale and, once installed, fail to perform the task for which they were intended.

The problems of government departments are the ones most widely publicised, because they are obliged to come clean on their computer blunders. Not surprisingly, commercial organisations almost invariably try to cover up embarrassments of this type, making the scale of the problems difficult to assess accurately.

But according to a survey carried out by KPMG Peat Marwick 62 per cent of UK companies have experienced a "runaway" computer system – the phrase coined by KPMG for computer projects that get out of control. The larger the project the greater the chance of it turning into a "runaway", according to the report: projects with a development budget of less than £50,000 had a 55 per cent chance of running out of control, while those with a budget of more than £500,000 faced a 70 per cent chance.

Anecdotal evidence from lawyers and consultants working in the field backs up such figures. "We have been involved in a number of situations over the years where people have clearly not been getting value out of their IT investments," says Trevor Cook, of the computer and electronics group of Bird & Bird, the London solicitors. "Naturally they will have kept this quiet from the outside world. Some of them may have even kept it quiet from senior management."

The loss is more than just monetary. If the system is planned to give the company a clear strategic advantage over its competitors its failure can result in the company losing market share. At the same time huge amounts of money are still being thrown into the data processing department or software house to try to rectify the situation.

Steve Larner, a consultant who specialises in computer disputes, believes it is the pressure put on potential customers by computer salespeople – many of whom over-exaggerate the attributes of their systems and underestimate the inherent difficulties in implementation – which leads to inadequate systems.

Others, such as Martin Langham, manager of systems management at the Butler Cox consultancy, take a more charitable view. "As a basic principle it is impossible to accurately define at the beginning how long a project will take," says Langham. "People tend to underestimate because they leave things out."

Whatever the reasons, the problems are rarely technical, says Morag Macdonald of Bird & Bird. "Users just don't understand that there are three elements to computer systems – hardware, software and human beings; it's the human beings who are wrong most of the time."

"The most common thing to go wrong is that the person buying the system does not properly understand the requirements and how the system is to be used," says Larner. "That is the situation for 90 per cent of computer disputes."

Larner believes many company directors, especially in small or growing businesses, are addicted to "magic box buying", as he calls it. "They want a box that makes their company work," he says, and after that just bury their heads in the sand.

'The most common thing to go wrong is that the person buying the system does not properly understand the requirements'

As well as top management participation there should also be strong involvement from users in the definition and development, says Gordon Mousinho, the partner in charge of runaway systems management practice at consultants KPMG Peat Marwick McLintock. "It should be user ownership with IT involvement. The IT department should be seen as a supplier," he says.

One way of preventing companies from getting into the situation in the first place is to draw up a legal contract between the company and its supplier. "It helps them cut away some of the over-optimistic thinking," Larner says, and makes them focus their minds on what they really want out of a system. "It can be as good as a cold bath for the MD!"

Such a contract should build in cut-off dates by which certain parts of the project should be completed, says Cook. It should also outline the biggest risks, and identify who is responsible if things go wrong. And it should specify the performance of the system when complete, and the response times for certain programs.

The contract should be seen as a working document, says Cook, which can be referred to throughout the lifetime of the project. In the worst event it can enable the customer to sue if things go wrong.

Several management techniques could also be implemented in order to prevent such a dilemma occurring:

● Break the project down into several small pieces of work, which can be implemented in stages and closely managed, says Langham. Each stage should last six to nine months.

● Carry out risk analysis before the project starts in order to analyse the risks to the business.

● Use computer prototyping before the project begins and project management software from the outset. Follow a strict methodology.

● Do not be too optimistic about the use of Case (computer-aided software engineering) even though they can save time.

For those companies that are already involved in a project it can be difficult to spot the first signs of trouble. The larger the company, the more vulnerable it can be as it takes longer for the problem to percolate up through successive management layers, enabling the project to develop a life of its own before any senior manager notices.

One telling sign, says Langham, is when the project leaders claim the system will go live imminently – what he calls the "real soon now" or "99 per cent there" syndrome. He argues that the easiest way to spot a problem is by calculating how much manpower has been expended on the work over the original estimate, rather than simply looking at how late the project is.

Other indicators could be a growing number of complaints from users, staff morale at a low ebb and the postponement of other projects to concentrate staff in the problem area.

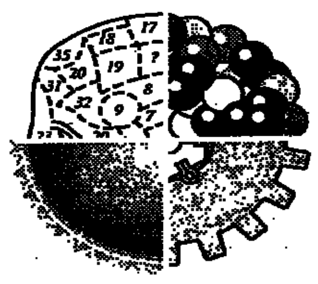
For smaller companies, says Larner, the time when the first test results of the system are produced is often the moment when managing directors realise they can no longer keep there heads buried in the sand. "If they've got it wrong there's a magic moment when they say 'This isn't what we're getting, is it?'"

For those already well down the track of a problem system the options are stark: keep throwing good money after bad; salvage what can be rescued from the project; or terminate the project completely.

Not surprisingly, many consultants believe that they should be called in to help make an objective decision. But as Langham point out: "I've never seen a project manager suggest his or her project should be killed!"

They might suggest starting the project from scratch employing management control and the latest techniques, such as Case, which could help to cut back the software delivery times. In certain cases Langham even advocates setting up a dedicated team with the latest software tools to overtake the languishing project.

For many, such as the UK Foreign Office, calling a halt, although drastic, may prove the least expensive solution.



WORTH WATCHING

by Della Bradshaw

Zooming in on the perfect pic

ONE headache for the holiday photographer is trying to take a snap of a moving target while keeping it in focus.

Minolta, the Japanese camera company, believes it has overcome the problem with a compact camera which incorporates a zoom lens with automatic focus.

The lens starts to focus on the object in the frame as soon as the user looks through the viewfinder. If a person in the frame is moving towards the camera then the lens automatically adjusts to ensure that he or she remains in focus.

The autofocus works by using an infra-red sensor located just below the eyepiece. Once activated, the sensor measures the distance between the camera and the subject and sets the focal length accordingly.

Voted the compact camera of the year in the UK by "Amateur Photography" magazine, the Riva Zoom 105i costs £199.

The final word on fraudsters

THE drawbacks with most biometric security devices – such as fingerprints or retina scanners – are that they are unpleasant to use and the prints can be copied, enabling the would-be fraudster to crack the system.

But Zetetic, of Nottingham, believes it has overcome these problems with a voice recognition system which is pleasant and simple to use.

To set up the Z12000 voice recognition system, each user records a list of 25 words, the pronunciation of which is analysed using five different voice parameters. When entering the building the user enters a personal identification number and then repeats five words which appear on the liquid crystal display in a random order. These are checked against the original voice print. There are 375,000 combinations of the words, making a recording of the correct combination almost impossible.

A version of the system is also available to prevent unauthorised access to computer networks.

The link between food and disease

CERTAIN foods are good for you, but which ones can prevent illnesses?

A five-year research programme has just started in the US to isolate foods which can prevent cancer. The programme, undertaken by Arthur D Little, of Cambridge Massachusetts, and funded by the National Cancer Institute's diet and cancer branch, will be the first to look at the relationship between food and cancer prevention.

The initial aim of the researchers will be to demonstrate that phytochemicals, which occur naturally in some foods, can inhibit the growth of cancer. The second stage will be to calculate which foods, in what amounts and which combinations, can be the most effective. Pre-clinical and clinical trials in animals and humans will then be conducted.

The final stage will be to develop palatable dishes combining the effective foods – such possibilities include a combination of liquorice and garlic.

Hungary aims for a slice of CD pie

COMPACT disc technology is being used increasingly in education and training, but for many smaller companies and educational establishments producing their own discs can be expensive.

A Hungarian organisation, through its newly formed status as a state-owned company, hopes to target this market by publishing CDs for overseas companies and universities. Tudorg, of Budapest, believes it can carry out the service for 60–70 per cent of the price of companies in the UK or France.

Tudorg, which is represented in the UK by Fosseway Trading, of Gloucestershire, compiles the information and then sends it to Philips in the Netherlands to produce the master disc. The Hungarian company then prints the discs in Budapest.

Tioxide takes to the sun

A COMPANY specialising in the production of white pigments for the plastic industries has tailored the same chemicals to act as a sunscreen for use in cosmetics.

Tioxide Chemicals, bought by ICI last December, has developed a version of titanium dioxide which, it says, can block out both UVA and UVB light – which between them can cause burning and skin disease.

Titanium dioxide is widely used to produce the white colour in plastic baths and has often been seen daubed on the faces of cricketers and other sportsmen in hot climates where the pigment is used to prevent sunburn.

To produce the sunscreen Tioveil, Tioxide has ground down the material into an ultra-fine powder so that it does not reflect visible light, and so is invisible on the skin. The company believes it will find a ready market in moisturisers, lipsticks and other cosmetics – some of the fastest growing areas of the sunscreen business.

Miniature lettuce on the menu

THE single gourmet could soon be in for a treat. Scientists in California have developed a mini-lettuce which is just enough for one portion.

The size of a tennis ball, the perfectly formed miniature icebergs were developed at the US Department of Agriculture's research station at Salinas. Scientists there altered a lettuce gene critical to a natural growth hormone called gebberellin to come up with the edible morsels.

The Salinas scientists will be providing samples to seed companies this winter, which should mean the mini-lettuces will be in the supermarket by spring 1993. The taste and texture, they say, is as good as the full-sized equivalent.

Contacts: Minolta: Japan, 06 271 2251; UK, 0908 211211. Zetetic: UK, 0602 228602. Arthur D Little: US, 617 661 5830. Tudorg: Hungary, 1 133 9117. Fosseway Trading: UK, 0451 31593. Tioxide Chemicals: UK, 0642 370300. US Department of Agriculture: US, 408 755 2800.

FT LAW REPORTS

Underwriters will be represented in insurance claim

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION v TAYLOR

Queen's Bench Division: Mr Justice Waller: May 10 1991

THE COURT has power to appoint representative underwriters to defend an action which originated against one underwriter only in respect of his proportion of risk under a policy which has no leading underwriter clause binding all underwriters to settled claims, if the other underwriters have the same interest in the proceedings in that they all subscribed to and have a common defence under physically separate policies on the same terms and bearing the same number. And the court will exercise that power in the absence of agreement by the underwriters to be bound for their proportion of the costs of the proceedings, if there is a serious risk that the original defendant might become liable for 100 per cent of the costs.

Mr Justice Waller so held when granting an application by the plaintiff, the Bank of America National Trust and Savings Association (Bantsa), for orders appointing representative underwriters to defend its insurance claim in addition to the original defendant, Mr John Joseph Taylor.

HIS LORDSHIP said that the owners of the vessel Kyriaki took out hull and machinery insurance from December 31 1984 to September 25 1985. Bantsa alleged it was the assignee of all the policies.

The policies had the same policy number, but different policies were issued.

A Lloyd's marine policy insured 48.76 per cent of 88 per cent. An Institute of London Underwriters Companies' Marine Policy insured 43.53 per cent of 88 per cent. Policies issued by individual companies insured 1.13 per cent, 0.68 per cent and 0.45 per cent of the 88 per cent.

Those policies were produced in the bundle of documents and the subscribers were identified.

In relation to the remaining 12 per cent, Bantsa asserted issuance of certain policies by individual companies including Abu Dhabi National Ins Co (Adnic) for 2 per cent, and Arabian Seas Co Ltd for 3 per cent.

Of those policies the only one produced was a policy subscribed to by Adnic and Arabian Seas. The other policies were missing.

It appeared there might be an issue on assignment in relation to the policy subscribed to by certain of the missing policy underwriters and Adnic and Arabian Seas.

The policies all provided cover for loss and damage to hull and machinery, except where there had been lack of due diligence by the owners or managers.

The main issue in the action would be whether damage to the main conrod and bottom end bearings was caused by want of due diligence.

The incident occurred in July 1985. The underwriters refused to pay and litigation became inevitable.

Solicitors for the underwriters named Mr John Joseph Taylor as representative underwriter for the purpose of proceedings. His proportion on the policy was 0.0006901 per cent.

The original action was not a representative action. It was simply a claim in relation to Mr Taylor's proportion, and was issued in the expectation that an action against one underwriter would bind the others pursuant to an agreement to be bound.

There was negotiation as to terms of an agreement to be bound. Solicitors for Bantsa required a term that if Mr Taylor should become liable for costs, they should be recoverable from him in full, and reimbursed by underwriters according to their respective proportions. Solicitors for the underwriters argued that each underwriter should be liable for his own proportion of the costs and not be bound on behalf of Arabian Seas or the missing policy underwriters.

Solicitors for the underwriters asserted that if an agreement to be bound was not signed in their terms, the only alternative was to join each and every underwriter as defendants. Bantsa negotiated on the basis that if its terms were not accepted it would be entitled to come to court and pursue an action with one or more representative underwriters.

On May 12 1990 the plaintiffs took out a summons under Order 15 rule 12 of the Rules of the Supreme Court.

Order 15 rule 12(1) provided that "where numerous persons have the same interest in any proceedings", the proceedings might be begun by or against any one of them as representing all or some of them. Rule 12(2) provided that at any stage of proceedings the court might, if it thought fit, appoint one or more of the defendants or other persons to represent all or some of them.

The action was not started as a representative action within rule 12(1). The court was thus concerned with an application under rule 12(2).

There were two questions.

First, on the proper construction of the rule, did the court have power to appoint one defendant to represent others in the circumstances of the case?

Second, if it had power, should the court in the exercise of its discretion, appoint one defendant or more than one to represent other persons?

Mr Tomlinson for the underwriters submitted that there was simply no power in the court to make a representative order at all. He submitted that the only way in which a sensible result could be achieved was by an agreement to be bound.

Mr Schaff for Bantsa said there must be power under rule 12(2) to allow an underwriter to be appointed as representative.

He submitted that *Irish Rowan [1990] 2 WLR 117*, in which the Court of Appeal rejected a submission that a case could never be within rule 12(1) where damages or debt were claimed against all defendants severally, demonstrated that earlier decisions placing a narrow construction on "the same interest in any proceedings" were not to be followed.

That submission must be right.

In *Irish Rowan* the leading underwriter clause provided that "all settlements of claims or contestations whatsoever . . . taken by the leading underwriter, will be binding on all underwriters . . ."

It was clear from the judgments of Sir John Megaw and Lord Justice Purchas that they were not treating the leading underwriter clause as simply relevant to the question whether the court should, in its discretion, order a representative action, as opposed to whether it had power to do so.

The question in relation to power was whether, without a leading underwriter clause of the *Irish Rowan* type, there was "the same interest in any proceedings".

In *Irish Rowan* Lord Justice Purchas placed great reliance on the leading underwriter clause. Lord Justice Staughton did not. Sir John Megaw recognised how inconvenient it would be to have to sue the separate underwriters. He said "if there were 77 separate contracts of insurance . . . the result . . . would seem to be potentially anarchic from the practical business point of view."

A representative action was an action in which those represented were not named as parties. Order 15 rule 12(2) entitled a person to represent persons who were not named as parties. In such a situation it would be strange if the test were not the same, ie that the defendant and those represented should have "the same interest in any proceedings" as under Order 15 rule 12(1).

The court had power to make an order under the rules. It would exercise its discretion in favour of a representative action.

It exercised that discretion on the basis that there was a serious risk that the representative underwriter might become liable for 100 per cent of the costs. It might thus be unfair to make Mr Taylor the sole representative.

The court had power to make one underwriter represent all underwriters even where, as here, there were distinct physical policies, because each of the underwriters did have the same interest in the proceedings. They furthermore had a common defence.

In the light of the cost considerations it was more satisfactory if the missing policy point or assignment point were dealt with by each defendant against whom the point was taken – that required joinder of the missing policy underwriters; if Arabian Seas were joined as a separate defendant; if one underwriter from Lloyd's Marine policy represented all underwriters on that policy, and one underwriter from the Companies' policy represented all underwriters on that policy.

For the plaintiffs: Alistair Schaff (Bill Taylor Dickinson).

For the underwriters: Stephen Tomlinson QC and Stephen Kenny (Ince & Co).

Rachel Davies
Barrister

Alastair Muir

The Tango: sexy, witty and weighted

Tango Argentino

ALDWYCH THEATRE

Sexual, glamorous and fateful, the tango comes to us in this great show with a intoxicating drive. First, there's just the music. A beat; a half-phrase; an outrageous pause; a flourish ... Next a phrase that suddenly sweeps round, like a car taking a corner on two wheels ... Then the full non-stop red-blooded throb of the tango in all its passion, borne on the brisk pulse of destiny.

With these musicians playing, that's thrill enough. But the tango is, of course, a dance; and it can also be a song. *Tango Argentino* celebrates all that. Costumed with supreme stylishness, lit with thrilling flair, *Tango Argentino* does honour to the tango by reprising its history, retrieving it from ballroom competition and reviving its native core. We're shown tango as it once was, danced by men waiting in the Buenos Aires brothels, then danced by prostitutes, pimps and clients. Next, we see the tango refined, popular and international. Finally the tango is shown, simply and overwhelmingly, as a rich, living tradition.

The Argentinian tango is far more seriously erotic and less full of sterotyped sexual chauvinism then the British ballroom tango. Man and woman are closely linked, share steps, allow each other to display, while still in the other's embrace. Active and passive roles are excitingly combined. The way the men's fingertips so lightly touch the women's backs into action is endlessly sensual. And those feet! They circle ceremoniously on the floor and in the air; they boomerang, to and fro, in and out, between and round the partner's legs; they skip, stride and virtually perform rapid soixante-neuf patterns. The tango is witty.

And it is weighted. Man and *woman remain held to each* other and to the music. Suddenly the accordion peals out like a thunderclap, the strings sing away; the dance paces on. One whole dance will proceed with man and woman nose to nose. Another begins brow to brow. A third couple are always turned away from each other, as if yoked helplessly together. In one step, recurring in many ways, the woman turns rapidly this way and that in the man's arms, as if wriggling in sheer ecstasy, or struggling to find an escape. Often indistinguishable from a habanera, the tango is what Carmen and José will go on dancing in heaven.

I could not speak this way of the tango were it not for these marvellous dancers, 17 in all, spanning a wide variety of ages. The singers and the choice of songs are the show's one weak point: but they are always given sublime accompaniment. (The fact that the two leading accordionists look like Les Dawson and Jeremy Isaacs is one of the show's more surprising features.) The words are almost all about God, love, betrayal, destiny and death. So, more tellingly, are the dances.

Every congratulation to Claudio Segovia and Héctor Orezzoli, who first conceived this show and presented it in Paris (1983) and New York (1985), and who have designed, directed and choreographed it. This is the kind of vivid, meticulous, serious staging that we associate with Diaghilev. *Tango Argentino* has since triumphed in several other cities; and Segovia and Orezzoli have gone on to present their great tributes to flamenco (*Flamenco Puro*) and jazz and the blues (*Black and Blue*) I hope these shows can be brought here too.

In the final numbers of *Tango Argentino* the stage is full of couples. All of them are involved in different dances. They move, with the music, from slow to fast, and the stage is full of detail: lunges, kneels, backbends, and those masterful feet. Your eye *cannot* take in all of it; and your head almost bursts. Just as all of it coalesces into a single image of collective erotic doom, Nelson (the greatest partner of them all) suddenly turns his woman (the severe, sharp Nelida) upside down, holds her there on his thigh, and laughs.

Alastair Macaulay

Henry VIII

CHICHESTER FESTIVAL THEATRE

Thackeray was right to feel that the dignity of history diminishes as one grows better acquainted with the materials which compose it: "Only he who sits very near to the stage can discover of what stuff the spectacle is made." *Henry VIII* at Chichester relies heavily on spectacle to leaven a production of one of Shakespeare's least inviting plays. The result is as fine a rendering of this play as one can imagine.

Nonetheless, the stage history threatens to be more compelling than the play itself. *Henry VIII*, the fruit of Shakespeare's collaboration with John Fletcher, was playing in 1613 when the Globe Theatre burned down. And in 1628 George Villiers, then Duke of Buckingham, commissioned a production on the eve of his fall from grace: he stayed till Shakespeare's Duke of Buckingham was executed, and left.

Of course, the play is really about the demise of Thomas Wolsey and the misery of Henry's first wife, Katherine of Arragon. The action tends to push Henry into the shade. But the issues, while not dramatically realised, are pertinent both to Elizabethan politics and Tudor history: the manipulation of public opinion; the usefulness of image-making; the impact of power on the powerless; and the question of institutional legitimacy.

Ian Judge's production has Keith Michell's two-dimensional Henry straight from the Holbein portrait; matey but querulous, civilised but impulsive. Although the play outlasts Wolsey by two acts, it is the machinating Cardinal, superbly played by Tony Britton, who makes the issues come alive and gives the play what shape it has. He is the essential ambitious subject "spider-like, out of his self-drawing web", honey-tongued and jealous of his own counsel. He shows some sparks of Richard III in everything but his disappointing repentance at the end: "Can thy spirit wonder/A great man should decline?" The scene of his fall is the best in the play.

In a strong cast, Dorothy Tutin (Queen Katherine) – powerless, friendless and expatriate – finds exactly the right combination of public strength and private weakness. Geraint Wyn Davies as the hapless Buckingham and John Quentin as the slippery Gardiner enliven the personal politics. And Fiona Fullerton makes the most of Anne Bullen, even if she does lack the opportunity to convince us of her substantial though inadvertent threat to Wolsey.

The set, a revolving plinth backed by a large map of the Thames, keeps the action flowing. The costumes, contemporary Tudor, are superb. But the high ceremonial of Anne's coronation and the christening of the princess Elizabeth are made by Nigel Hess's music, "Gloria" and "Jubilate." A sharp prologue and commentary (Neil Dalglish) treats the action just like a wax tableau, explaining and clarifying.

In this year of Henrician celebration, the current Greenwich exhibition delivers more about Henry's political and cultural accomplishments than the play can, and has the advantage of being, for the most part, wife-free, allowing a different, renaissance prince to emerge. But this production should make a fine five-hundredth birthday present for Henry next month.

Andrew St George

Alastair Muir

Tony Britton as Cardinal Wolsey with Keith Michell's Henry

Royal Concertgebouw Orchestra

SYMPHONY HALL, BIRMINGHAM

In Symphony Hall on Wednesday the Concertgebouw and its principal conductor Riccardo Chailly gave a fascinating programme of Haydn, Schoenberg and Schumann. Such fare appears to have been deemed too *risqué* for London audiences; the orchestra's appearance in the Festival Hall tonight plays safe with Bruckner. The new Birmingham hall is likely to be included on the itineraries of many visiting orchestras, and there will be plenty of opportunities to discover how the acoustics cope with a variety of performing approaches. Nevertheless the Concertgebouw Orchestra promised a revealing test: not only is it a band whose own sound has been deeply affected by its home hall in Amsterdam, but that very hall was one of the venues that influenced the thinking of the Birmingham designers.

It is too early to pronounce whether Symphony Hall is going to join the Amsterdam Concertgebouw in the highest international flight, but already one can state confidently that there is no better place in these islands to listen to orchestral music. Whatever one thinks of the look of the auditorium, the warmth, immediacy and detail of the sound are breathtaking. There was a surprisingly generous resonance: the opening phrases of Haydn's Trauer Symphony, No.44 in E minor, lingered unexpectedly, yet never for a moment clouded the textures.

Under Chailly the Concertgebouw appears to have lost a little of its mellow, nutty string sound and instead gained in fleetness. It still makes a sumptuous noise, but the way the finale of the Haydn was negotiated, with no overt concessions to authenticity, was buoyed up by lightness and grace. Steadily too, the conductor is expanding the orchestra's repertory. His fondness for early expressionism has already produced several fascinating recordings, and Schoenberg's Five Orchestral Pieces Op.16 here had a confident grasp of shape and idiom. Sometimes Chailly moulded the pieces a little too intrusively; "Farben" is even more effective delivered with icy precision in the Boulez manner rather than nudged and cosseted. But the explosive climaxes of the first piece were vivid, and the dense polyphony of the last never became over-saturated.

Because he seems to conduct other orchestras so rarely nowadays, Chailly's maturity as an interpreter has only gradually registered. But Schumann's Second Symphony here had a a powerful, comprehensive charge, built through the slow introduction, flecked with the Concertgebouw's peerless brass, and never afterwards relaxed. The scherzo was a miracle of articulation, the slow movement sculpted in long, eloquent paragraphs, the finale a boundless feast of string and wind tone. As encores Chailly and his orchestra offered three of Schubert's German Dances, in arrangements by Bruno Maderna which recruit a piccolo and battery of percussion. They are salon nuts wittily cracked by orchestral sledgehammers, and dashingly played, even if "dashing" is not a word automatically associated with the Concertgebouw on its previous visits.

Andrew Clements

Nabucco

ROYAL FESTIVAL HALL

It was the chorus "Va, pensiero" from *Nabucco* which moved Bernard Shaw to wear down half an inch from the tip of his umbrella in sheer enthusiasm. The audience at Tuesday's *Nabucco* by Opera in Concert (in aid of the Bristol Cancer Help Centre) cheered that lustily, and much else as well.

It was a happy evening. The opera is irresistible (though curiously enough our London houses seem not to find it so: *Nabucco* has not been given by the Royal Opera since the late 1970s, and not ever by ENO at the Coliseum). The power, musical boldness, and flaming theatricality of Verdi's first popular success never go dim. Furthermore, it can come off singularly well in concert-opera conditions, since the drama is focussed with unwavering directness on the contrasted personages in the foreground and on the chorus.

On Tuesday those personages were interestingly and effectively chosen, along with a good orchestra (Royal Philharmonic) and chorus (London Pro Musica) led by an uncommonly gifted young conductor, Paolo Olmi. There was plenty of the vocal spark needed to ignite the four short acts; but there was none of the crude posturing, vocal and indeed physical, that sometimes accompanies it in Verdi concert performances of this kind. All the leading singers encouraged us to admire the work as well as their execution of it; and Mr Olmi, though he has not yet mastered that "longer line" that only the most mature Verdians – the Serafins and the Downeses – seem to command, supported them with vitality and finesse.

In terms of voice alone the great Verdi performance came from the Zaccaria. Dmitri Kavrakos's bass, well known in London, has developed into one of the grandest and fullest-toned instruments currently before the public – certainly the noblest in *cantabile* style. He is not exactly an electrifying singing-actor; he does not vary dynamics or verbal shadings in any dramatically charged fashion. But the steady, rolling beauty and grave dignity of his singing created their own Verdian authenticity.

That "extra" of charged dramatic commitment could be felt in both the Abigaille of Julia Varady and the Nabucco of Matteo Manuguerra. The soprano, a lovely, vibrantly sympathetic artist lacking the metal in the tone for so melodramatically far-flung a vocal line, makes it her own by the truthfulness of her musicianship and the free-throated resilience of her technique. Manuguerra, in his 60s, sounded crusty – even, at the start, rather rusty – and at the same time full of kingly authority, so that even when the voice was forced to gloss over details, the personality retained its larger-than-life ripeness.

A sumptuous mezzo Fenena from Anne-Marie Owens, alert, intelligent *comprimarii* (Lesley Garrett, John Tranter, Christopher Ventris), and a tight, monochrome Ismaele from the young Italian Salvatore Ragonese. Opera in Concert plan more of these early-Verdi concerts. They cannot happen soon enough.

Max Loppert

Black Poppies

THEATRE ROYAL, STRATFORD EAST

Here is rather a mature stage documentary about blacks in the British armed forces and their return to civilian life. *Black Poppies* makes no pretence to be a play: it is an account, drawn from direct experience, of West Indians in the British services from the Second World War to the present day, with a spell of duty in Northern Ireland very much included.

It is worth seeing partly because it is very well done. The performance at Stratford East is in cooperation with the National Theatre, so the performances and the direction are uniformly excellent. It is also worth going to because of the strength of the documentation. No-one could doubt the claim that it is based on careful, first-hand research.

Put very briefly, the message is that the blacks were welcomed at the time of the war because the country, and indeed the empire, needed them, and many of the West Indians were glad to serve. After the war, the armed forces were still a better place to be than civilian life because the military at least recognises professionalism. There is a feeling that everybody is in it together; or, at any rate, up to a point. The problem is that, at a certain level, promotion stops. For instance, the black bugler, whatever his merits, does not get to the top of the military band.

The piece has additional virtues. These West Indians are not very different from working class whites. When they whinge, the whinge is authentically British. But not all of them do whinge. The one who comes to command a tank tends to look down on his fellow blacks who lack aspirations.

Yet despite wanting to do many of the same things as the whites, they also regard themselves as somehow different. The phrase used in the army, and no doubt in other sections of British life, "He's not black, he's one of us", is not seen entirely as a compliment.

The line that stands out more than any other is "being black means you have to be twice as switched on to get anywhere". That says everything about discrimination and the absence of promotion to the highest levels. There are also some nice points about why blacks join the armed forces but not yet the police. If they did go into the police in any numbers, one of them observes, a lot of things would be different. And what if a group of them, having left the army with considerable skills – including killing – were to get together?

There is no sense of inferiority; nor should there be. These black soldiers are perfectly capable of recognising a white psychopath when they see one and analysing him. The piece is preceded by one of those wartime screen government information features claiming to show how easily the races worked and played together when the empire was under threat.

Black Poppies, without bitterness, shows some of the underlying problems. It is directed by John Burgess, and if one were to pick out one actor among several it would be Colin McFarlane for his account of a black's role in Ulster.

Malcolm Rutherford

The Magic Flute

SADLER'S WELLS

Whenever I attend a performance of *The Magic Flute*, I leave the theatre half expecting to fight my way through picket-lines of militant feminists and anti-racists. Every time the all-good and all-wise Sarastro comes onstage, he makes some perilous remark like "Without a man's guidance, a woman goes astray" or (to the Moor, Monostatos) "Your soul is as black as your face."

The problem doesn't occur in Mozart's score. Indeed, the impishness in his music for Monostatos and the radiant tranquillity with which he finally reunites hero and heroine turn all such difficulties into strengths. But during the opera's several passages of spoken dialogue there are undeniably awkward moments. Every modern production handles these issues its own way – evasively, aggressively, frivolously or frankly. Stephen Medcalf's staging (which Opera 80 is currently alternating with *Don Pasquale* at Sadler's Wells until June 1) certainly confronts them, and yet it does little to resolve them. Instead, it adds other problems.

The Magic Flute becomes a sort of psychodrama. The "serpent" which assails Tamino is in fact part of a nightmare – a man, bare-chested, black-faced, with dagger poised at Tamino's throat. In the "portrait" aria, Tamino sees not Pamina's picture but, through an empty frame in his hands, Pamina herself. Pamina has an even more complicated time with her mother than in other stagings.

There's plenty of internal evidence to support such an approach. Only look: all that sleeping, talk of dreaming and tense references to the elder generation, opposite sex and bogeymen. But Medcalf doesn't focus his ideas well.

And the opera's references to nature (the wild animals tamed by the magic flute in Act One) and the real world (the dawn before Pamina's attempted suicide in Act Two) are played down here. The opera often says "Look outside, know other forms of life," but this staging only says "Look inwards, know thyself."

Sarastro (Andrew Gallagher) is badly under-sung; Tamino (Stephen Austin) is tight-voiced and unpoetic; and the choruses do not benefit by being sung by a handful of singers (nine in the finale, four for "O Isis and Osiris") – not this handful, anyway.

But almost all the words are clear. Ivor Bolton's tempi are brisk but never hectic. The magic-bell dance in Act One and the Papa-Papa reunion are wittily choreographed. Penelope Randall-Davis (Queen of the Night) and Lisa Tyrrell (Pamina) are rather fluttery; but the former brings off the famous staccati *in alt.* and the latter, always spontaneous, makes the last phrases of her beautiful aria liquid and melting. This is a most complex opera, perhaps the most difficult to stage in the whole repertory. This isn't a neat or satisfying production, but I admire it for making me even more aware of the opera's complexities than before.

Alastair Macaulay

INTERNATIONAL ARTS PREVIEW

& EXHIBITIONS

Next Thursday sees the world premiere at Covent Garden of Harrison Birtwistle's new opera Gawain, a Royal Opera commission. The work is based on the 14th century poem Sir Gawain and the Green Knight, which tells of a supernatural figure who challenges King Arthur's court to an exchange of blows. The libretto by David Harsent is an original dramatic poem for voices which follows the events of the medieval work. The conductor is Elgar Howarth, who played a large part in the success of Birtwistle's The Mask of Orpheus at the ENO in 1986. The cast includes Francois Le Roux in the title role and John Tomlinson as the Green Knight. There are six performances from May 30 to June 22.

The festival season is gathering momentum. The theme of this year's Bath Festival (May 24-June 9) is Beyond Vienna, focusing on the music of central Europe. In tonight's opening concert, Libor Pesek conducts Suk's symphonic poem Praga. Other visitors from Czechoslovakia include the Martinu Quartet, the Musica Antiqua Prague and the violinist Josef Suk. Hungary is represented by the piano duo Tamas Vasary and Peter Frankl, the Amadinda Percussion Group and the Janosi Ensemble, who offer the hot-blooded vitality of authentic Hungarian folk music. The Borodin Quartet and other prominent Russian artists are also featured.

The highlights of the Dresden Festival (May 25-June 9) are a concert performance of Meyerbeer's opera Il crociato in Egitto (Sun), and a visit by the Hamburg State Opera with Alfred Kirchner's production of Idomeneo (May 28 and 31) and a new ballet by John Neumeier (May 30 and June 1). The Semper Opera's Mozart repertory is headed by a new production of Entfuhrung (tomorrow), and the National Theatre in Prague will bring Prokofiev's Betrothal in a Monastery. There are concerts by the Dresden Philharmonic under Lothar Zagrosek, the Staatskapelle under Herbert Blomstedt and the Los Angeles Philharmonic under Kurt Sanderling.

EXHIBITIONS GUIDE

AMSTERDAM

Rijksmuseum A Century Apart: 19th century Dutch and French paintings from the museum's own collection. Ends June 30. Also Chinese Painting: scroll-paintings and album leaves on paper and silk from 16th to 19th century. Ends June 20. Closed Mon

Stedelijk Museum Prints by Charles Meryon (1812-1868), ranked with Piranesi as the greatest of architectural etchers. Ends Aug 4. Daily

BARCELONA

Fundacio Joan Miro Sergi Aguilar: sculptures and drawings 1989-91, by an artist often identified with Minimalism. Also Lee Miller: 96 images by the early 20th century American photographer. Ends June 16. Closed Mon

BERLIN

Altes Museum John Heartfield (1891-1968): centenary retrospective of the influential Berlin-born photo-montage artist, known for his life-long Communist beliefs. Ends July 11. Closed Mon and Tues

Museum fur Moderne Kunst Metropolis: a foretaste of trends in the 1990s, with 200 works by artists from 20 countries. Ends July 21. Also Berlin: Today and Tomorrow, plans for Berlin's future by 17 prominent architects. Also Photographs by Marta Astfalck-Vietz (b1901), with examples of her experimental work from the period 1922-35. Ends July 28. Closed Mon

CHICAGO

Art Institute Paul Strand: first retrospective of the American photographer since his death in 1976. Ends July 21. Also English and French Printed Textiles: 100 examples mainly from the 18th and 19th centuries. Ends Sep 3. Daily

COLOGNE

Schnutgen Museum Book decoration in the era of the 10th century Ottoman empress Theophanu. Ends June 16. Closed Mon

FRANKFURT

Judisches Museum Friedl Dicker Brandeis (1898-1944), Jewish artist killed in Nazi concentration camp. Ends July 28. Closed Mon

Schirn Kunsthalle From Lucas Cranach to Caspar David Friedrich: German artists from 16th to 19th century. Ends June 9. Daily

LONDON

Barbican Canadian landscape paintings 1896-1939. Also Contemporary Art from Canada, focussing on city and suburban images. Ends June 16. Daily

MADRID

Fundacion Juan March Maria Helena Vieira da Silva: 64 abstract paintings by the Portuguese artist (b1908), distinctive for her prismatic effects. Ends July 7. Daily

MUNICH

Antikensammlung Ceremonial and ritual drinking bowls from Attica: 168 examples from ancient Greece. Ends Oct 27. Closed Mon

Kunsthalle der Hypo-Kulturstiftung Marc Chagall: 111 paintings and four wall tapestries from American and European collections. Ends June 30. Daily

Lenbachhaus Nikolaus Lang (b1941): collages using natural materials from Australia. Ends June 16.

Villa Stuck Genuine Fake: the art of copying by Mike Bidlo, with numerous startling examples. Ends Aug 18. Closed Mon

NAPLES

San Domenico Maggiore Choir-book manuscripts 1400-1600, showing how the art of book decoration flourished despite the emergence of the printing press. Ends June 23. Daily

NEW YORK

Brooklyn Museum The Blue of Jingtai: 35 Chinese cloisonne enamel vessels mainly from the 18th century Qianlong era. Also Tiffany lamps and glass vases from the early 20th century. Ends June 30. Closed Tues

Metropolitan Museum of Art The Sculpture of Indonesia: ancient Hindu sculpture, delicate gold figures and a life-size stone Buddha. Ends Aug 18. Ends June 16. Closed Mon

Museum of Modern Art The Gardens and Parks of Roberto Burle Marx, examining the work of one of the most important 20th century landscape architects. Ends Aug 13. Also Seven Master Printmakers: Innovations of the 1980s, with 55 works showing how David Hockney, Jasper Johns, Robert Rauschenberg and others redefined possibilities for the print medium. Ends Aug 13. Closed Wed

PARIS

Centre Georges Pompidou Andre Breton (1896-1966): wide-ranging exhibition recreating the aesthetic world of one of the leading theorists of Surrealism. Ends Aug 26. Closed Tues

Galerie Daniel Malingue Moise Kisling: retrospective of the Polish-born member of the cosmopolitan Ecole de Paris. Ends July 14. Closed Sun

Galerie Schmit French Masters of the 19th and 20th centuries: this annual event by the prestigious town-house gallery astonishes yet again with its roll-call of great names, dominated this year by a jewel-coloured Rouault. Ends July 18. Closed Sun

Grand Palais From Corot to the Impressionists: exhibition in homage to Etienne Moreau-Nelaton. Ends July 22. Also Georges Seurat retrospective. Ends Aug 12. Closed Tues

Musee Rodin Camille Claudel: 100 works by Rodin's disciple and tragic lover. Ends June 20. Closed Mon

Louvre, Pavillon de Flore Spanish Drawings: Masters of the 16th and 17th centuries, with 137 works from the Louvre and Spanish museums. Ends July 22. Closed Tues

Louvre des Antiquaires Seating power: the historical development of seats as furniture, including a maharajah's throne, guilded Louis XIV armchairs and art nouveau chairs. Ends Aug 16. Closed Mon

Louvre (entry through the Pyramid) Treasures of Saint-Denis. Ends June 17. Closed Tues

PRAGUE

Convent of St George Ancient Chinese Art from the National Gallery collection. Ends Sep 15. Closed Mon

STUTTGART

Staatsgalerie Max Ernst: centenary retrospective of the German-born Surrealist, with 200 works from worldwide collections. Ends Aug 4. Closed Mon

VENICE

Fondazione Cini Michelangelo and the Sistine Chapel: photographic and scientific documentation of the restoration, prints by artists inspired by the frescos and a group of original preparatory drawings by Michelangelo. Ends July 28. Closed Mon

Palazzo Grassi The Celts. Ends Dec 8. Daily

VIENNA

Albertina Dutch drawings from the Abrams collection: 100 drawings mainly from the early 17th century, including works by Rembrandt and his school. Also Martin Disler (b1949): prints and etchings by the versatile Swiss artist. Ends June 30. Daily except May 30

Kunstforum Landerbank Oskar Kokoschka: 90 paintings from worldwide collections, tracing all phases of his artistic development. Ends June 23. Daily

Museum of the 20th century Image-Light: developments in non-material forms of painting, such as those consisting only of light and pure colour. Ends July 7. Closed Wed

WASHINGTON

National Gallery Robert Rauschenberg (b1925): 150 examples of the influential American artist's recent work. Ends Sep 2. Daily

WEIMAR

Autonomes Cultur Centrum Picture snaps from the Bauhaus: 60 art photographs documenting the lifestyle of the famous school of architecture and design. Ends June 22. Closed Sun and Mon

WIESBADEN

Museum Alexej Jawlensky and Agnes Martin: the Russian artist Jawlensky (1864-1941) was influenced by Matisse, formed the Blue Four with Kandinsky, Klee and Feininger, and settled in Wiesbaden. Martin (b1912), winner of the first Jawlensky memorial prize, is linked to the New York abstract expressionists. Ends July 21. Closed Mon

ZURICH

Kunsthaus Modigliani: 55 paintings and 90 drawings. Ends July 7. Daily

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Labour and industry

THE LABOUR party has striven hard to replace its old reputation as enemy of capitalism with a new image as the friend of business. It no longer talks of controlling the commanding heights of the economy, but of forging a "partnership" with industry to re-build the country's manufacturing base. Profit, enterprise and wealth creation have all become respectable words.

But how deep does Labour's conversion go? And does it offer anything distinctive to Britain's industrial prospects?

The party's shift partly reflects three electoral defeats. But it also acknowledges practical constraints. Privatisation has gone too far to be wholly reversed on other than confiscatory terms. The scope for intervening in industry is increasingly circumscribed by tough competition and merger rules enforced by Brussels.

These constraints have led the party to focus on broader policy priorities – many of them shared by the Confederation of British Industry. Labour rightly places much emphasis on education and training. Its commitment to improving public infrastructure is welcome, as is its surprising readiness to involve private capital. Decentralisation of regional policy seems sensible, while proposed tax breaks for research and development and gestures in favour of small businesses can do little harm (though they may also do little good).

Competing claims

All this is fine so far as it goes, but it may not go very far. Upgrading education and infrastructure is a long-term challenge. It is also hugely expensive. Yet a fiscally-responsible Labour government would have limited extra resources to play with – and many competing claims upon them. Launching a raft of quangos may make matters worse, by draining scarce funds into half-baked schemes, such as a National Investment Bank and subsidies to encourage cash-rich defence contractors to diversify.

The party's second problem is that it has learned to live with capitalism, but not with the market. It remains wedded to a producer-driven approach, which views government's role as containing competition rather than making it work more efficiently. Its policy on mergers, for example, would subordinate competition to loosely-defined "public interest" criteria, to the detriment of consumers. Such a move would be decried in Germany – supposedly a model for Labour's industrial policy – where the importance of tough laws on competition is properly understood.

Retrograde idea

Labour's limitations show up even more clearly in its attitude towards the privatised monopoly utilities. It proposes to turn the clock back by re-asserting state control over British Telecom, the national electricity grid and water. Yet who, other than the trades unions, could gain from a return to the bureaucratic inefficiency which characterised Whitehall's governance of nationalised industries?

The government is vulnerable to the charge that it has too often put the acquiescence of the privatised enterprises and ease of privatisation ahead of the consumer interest. Labour could have responded by promising to break up the privatised giants further, in the interests of competition. It seems determined, instead, to exacerbate the government's mistakes.

It also remains blind to one of the better policy innovations of recent years, the emergence of a framework for regulating monopolies. There is scope for developing this and for extending pro-competitive regulation by, for example, giving more power and independence to the Office of Fair Trading.

Initiatives along these lines could stimulate industrial performance, while giving substance to Labour's claims to represent the interests of individual citizens. But such ideas appear too radical for a party intent on carrying respectability with producers, and not upsetting the unions. As a result, its industrial policy seems likely to amount, in practice, to little more than a modest increase in spending, a lot more quangos and some cautious tinkering at the margins of the economy.

This is the third in a series on Labour party policy

The governor's oversight

THE GOVERNOR of the Bank of England is responsible for the value of the currency, protected partly through stern lectures; and for oversight of the financial markets, disciplined – at least by tradition – with raised eyebrows in the privacy of his own parlour. Now, thanks to a different kind of oversight, he finds himself the embarrassed victim of eyebrows and indeed lectures; he needs no outsider to tell him it was an error of judgment.

The outside directors of the Bank no doubt meant well when they decided that salaries in Threadneedle Street should go a little way to catch up with those across the street. It is hard to guess what was in their minds when they allowed that gap to widen so drastically in the previous two years, when pay rose only 4 per cent; harder to explain their timing. But the final decision was for the governor. This was not the year for the one he took.

How should central bank governors be paid? Fairly meanly, as a general rule. However, puritan principles can be carried to dangerous extremes. US administrations, according to old Washington hands, are increasingly driven to recruit all their top officials from three classes: the fanatical, the stupid, and the independently rich. Mr Paul Volcker, who came to the Fed from a life spent almost entirely in the public service, was finding personal money quite a problem when he resigned, and won much sympathy.

He saw low pay as a real threat to the quality of government, and spent much of his first year in the private sector (after a pay rise of the order of 2,000 per cent) campaigning for better terms for all his former colleagues.

Comfortable salaries

The Bank of England is well clear of this dilemma. Its salaries do not pretend to match those available in the riskier dealing rooms, let alone in the largest public companies (the chairman of ITT earned more in a week in 1988 than the governor gets in a year, even after his rise). But Bank salaries have long been comfortable (comfortable enough to frustrate the Treasury recruiters once or twice), and clearly meet what was once proclaimed as the Thatcherite criterion for public service posts: the rate needed to attract the right man. Not even rumour has ever heard of anyone who rejected the governorship on pay grounds.

Indeed, the aftermarket in Bank officials is so heavily bid that nobody with an ounce of financial foresight would refuse any senior Bank job. (This not only saves public money, but also usefully weeds out those lacking foresight.)

Political cost

In fact there is very little economic meaning to the Bank pay review – all political cost, and no benefit. The case for comparability is weak at the best of times in such a prestigious, sheltered agency – and this is the worst of times. Perhaps payment by results would be more appropriate, with rises inversely related to the rate of inflation, and pay cuts once this passes some sensible threshold – below recent rates, in any case. Top Treasury officials, including ministers, could come under the same rule.

In the real world, the governor's gaffe is a venial matter – certainly when it is compared with those committed by rival lecturers on pay, from the president of the Confederation of British Industry (who is also chairman of the Prudential, where on recent evidence it seems that board pay rises and wobbling profits go hand in hand) downwards. Excessive pay rises imply that the laws of the market are only for the toilers, which is bad economics and worse politics.

We have already suggested that shareholders should confront this problem, though this can be difficult when some of the money managers who exercise their votes are themselves on the list. The most conspicuous offenders should be susceptible to political pressure – double digits, no K; double the rate of inflation, no peerage, ever. Well, hardly ever; for it is ministers, rather than company chairmen, let alone Bank directors, who may get the redundancy notices that result from these pay excesses.

Mishandling of the economy has drained away support from Australia's long-serving Labor government, writes **Kevin Brown**

Riding to the end of a wave

Australia's federal treasurer Paul Keating (left) and the prime minister Bob Hawke

Mr Bob Hawke, Australia's long-serving Labor prime minister, is always at his most dangerous when his opponents think he is beaten. But there are signs that Labor's long honeymoon with the Australian voters may be coming to an end.

Only 14 months ago, Mr Hawke led the party to an unprecedented fourth general election victory, confirming his personal popularity and underlining Labor's claim to have become Australia's natural party of government. The election left Labor in control of the federal government and five of the six states, with only New South Wales in the hands of the conservative Liberal/National party coalition. Labor is being put to the test in this key state when voters go to the polls in state elections tomorrow.

The outcome is unlikely to mar Labor's centenary celebrations in Hobart next month, when Mr Hawke will claim credit for the party's most successful period in power since its foundation in the shearing sheds of rural Queensland. But while the party faithful are drinking their Australian champagne, the teetotal Mr Hawke will be pondering the political hangover that looks likely to follow.

Labor's dominance of Australian politics in the 1980s was built on a repudiation of the big spending which brought the last Labor government under Mr Gough Whitlam to an ignominious end in 1975, when the conservatives took power in a landslide. When the Hawke government came to office in 1983 it embarked on a policy of fiscal prudence combined with efforts to increase the competitiveness of the economy by exposing it to international competition.

The policy won widespread support from business, which applauded a growing federal budget surplus and initiatives such as the deregulation of banking, floating of the Australian dollar, abolition of exchange controls and reduction of protective tariffs. At the same time, Labor persuaded the unions to accept a series of agreements, trading tax cuts for wage restraint, which helped dampen double-digit inflation and partially protected living standards.

The formula delivered average annual gross domestic product growth of 4 per cent during the second half of the 1980s, while simultaneously beginning the transformation of Australia from one of the world's most protected economies. The government also achieved a significant change in attitudes: perhaps for the first time, there is now widespread acceptance that "this tough, increasingly competitive world of 5½bn people does not owe, and will not give, 17m Australians an easy prosperity", as Mr Hawke put it recently.

So why, as it gears up to give itself a pat on the back, is Labor trailing the conservatives by 17 points in the latest Morgan Gallup opinion poll, and facing what Mr Wayne Goss, Queensland's Labor premier, warns may be a decade of retreat? The answer lies in the government's mishandling of the economy as it switch-backed from boom to bust, and in a combination of incompetence, corruption and bad luck at state level, which is jeopardising the party's reputation for sound management.

With hindsight, the turning point can be identified as late 1987, when Australia loosened monetary policy to maintain liquidity in the wake of the global stock market crash. Lower interest rates set off a boom which in turn stoked up the current account deficit to an unsustainable A$21bn, (£9.40bn) equivalent to 5.5 per cent of GDP. With its fiscal hands tied by the accord with the unions, the government had no option but to resort to interest rates as high as 18 per cent to slow the economy.

Higher rates have helped reduce the current account deficit to an annualised A$17bn in the current year, but the economic cost has been five quarters of slow or negative growth, and a rapid increase in unemployment, which reached 9.9 per cent in April. Joblessness is likely to go on rising for several months, making a mockery of Mr Hawke's pledge that it would never reach 10 per cent.

The only bright spot in the economy is inflation, which fell to an annual rate of 4.9 per cent in the three months to March, enabling the government to claim a "historic" breakthrough, even though much of the improvement was due to weak demand and one-off factors such as falling fuel prices in the wake of the Gulf war. But the government is unlikely to forget the lesson of its Labour counterpart in New Zealand, which also tamed inflation, but crashed to a dramatic election defeat partly because of high unemployment.

Technically, Australia emerged from recession in the December quarter, but the economy remains weak, and the government has been reduced to hanging on in the hope that a recovery will begin in the second half of the year. There are, however, few signs that the economy has bottomed. On the same day last week that Mr Paul Keating, the federal treasurer (finance minister) was urging Australians to go out and consume, Mr Don Argus, managing director of the National Australia Bank, was warning that the start of the recovery might be delayed until as late as the middle of next year.

The danger for the government is that the longer the delay, the more likely it is that unemployment will be unacceptably high when it has to go to the polls in March 1993. The alternative is to bow to increasing pressure within the party and the trade unions for higher federal spending to pump-prime the economy. Mr Hawke has hinted that higher spending may become essential if union support for wage restraint is to be maintained, but it would mean abandoning hope of a budget surplus next year, and with it the government's conservative fiscal strategy. Mr Keating, who has already seen this year's projected surplus pruned from A$8bn to A$1.7bn by the recession, is fighting hard to avoid a return to deficit financing, but may have to give some ground in the next budget, due in August.

The turning point can be identified as late 1987, when Australia loosened monetary policy to maintain liquidity in the wake of the global stock market crash

The government has had serious problems coping with the political impact of the weak economy, perhaps because contrition comes hard after eight years in office. Mr Keating now admits that he loosened monetary policy too much after the 1987 stock market crash, and tightened it too fast after the boom which followed. But few voters were very impressed by Mr Keating's claim that they were undergoing "the recession Australia had to have", especially as he had earlier promised it would never happen. The treasurer has since withdrawn that remark, but the image remains of a government which has become engrossed in theoretical economics, protected by its cosy Canberra lifestyle from the economy of real Australia.

Against this background, the government's managerial credibility is being steadily undermined by damaging developments in the states. Labor is in trouble everywhere except Queensland, where Mr Goss only recently ousted the politically corrupt National Party government of Sir Joh Bjelke-Petersen. Significantly, even Mr Goss has distanced himself, in recent speeches, from the Hawke government in an effort to insulate his state premiership from the fall-out of Labor's problems elsewhere.

The worst difficulties are in Victoria, where the state budget deficit has grown to A$2bn as a result of the collapse of the state-owned Tricontinental merchant bank and the enforced sale of its parent, the State Bank of Victoria. In Western Australia, sensational allegations are emerging from a royal commission into the state Labor government's close relationship with local entrepreneurs such as Mr Alan Bond and Mr Laurie Connell, and the state government is unlikely to survive stories of satchels full of cash being passed around. The federal party could also become directly involved in the scandal following claims that some of the entrepreneurial money found its way to Canberra to help finance federal election campaigns.

Even the South Australian government, once the chief feather in Labor's cap, is in trouble because of a A$1bn loss by the government-owned state bank, which is being investigated by another royal commission. And in tiny Tasmania, the island state which is home to fewer than 200,000 people, a minority Labor government has proved unable to hold together an alliance with the radical Greens, and could be pitched at any time into an election it will probably lose.

Labor's electability will be tested tomorrow in New South Wales, the richest and most populous state, where Mr Nick Greiner, the Liberal premier, has called an early election in an attempt to capitalise on the contrast between his government's relatively sound performance and Labor's disasters in Canberra and the other states. Mr Greiner's campaign theme is simple: "This is the first recession in which there have been clear interstate differences," he says.

"It is the first recession where the policies of different state governments have clearly, beyond any doubt, beyond any argument, led to dramatic differences in the quality of economic life." It is a message which looks like keeping him in office, especially since Mr Bob Carr, his Labor opponent, is having to spend much of his time keeping federal Labor leaders out of the state, and ducking responsibility for their policies.

Mr Greiner's confidence is echoed by other state Liberal leaders. For example, Mr Dale Baker in South Australia says Labor's "incompetence" will inevitably lead to the defeat of most of Australia's Labor governments, and Mr Barry MacKinnon in Western Australia says corruption revelations will put Labor out of business for years. By contrast, Labor despondency is epitomised by Mr John Bannon, premier of South Australia, and federal Labor president, who admits that the party is pinning most of its hopes on persuading the voters that things were not much better under past conservative governments.

Once, Labor could have counted on the business community for support in tough times, but few businessmen are now willing to speak out on the government's behalf, and many are ready to complain. Mr Ian Spicer, chief executive of the Confederation of Australian Industry, says business "strongly holds the view that the government has lost its way and no longer has a clear or coherent economic or industry policy. That contrasts quite strongly with the first five or six years of the Hawke government, in which it clearly had a view and a policy, and whether business liked it or not there was a degree of confidence that at least the government knew where it was going".

With two years to go to the next federal election, the government is far from finished. Mr Hawke remains marginally more popular than Dr John Hewson, the Liberal leader, and the party continues to dominate the conservatives in the federal parliament. Dr Gerard Henderson, director of the Sydney Institute, a free market think tank, acknowledges that the government looks tired, but says it is too soon to write off Labor, and suggests the party may recover ground quickly once the economy picks up. Nevertheless, Labor looks in its worst shape for years. Mr Hawke may still achieve his dream of a fifth successive federal election victory, but the odds are growing longer. As a gambling man, the prime minister would appreciate the significance of that.

In yesterday's FT book review Power and Accountability by Robert Monks and Nell Minow was incorrectly referred to as Power and Responsibility. We apologise for the error.

OBSERVER

Grown in the job

■ There must be a warm glow inside BT's executive chairman Iain Vallance, at last winning the stature befitting the head of a company making a profit of more than £3bn annually. His appointment in 1987 was greeted with dismay by some ministers, who wanted a stronger outsider to knock the then British Telecom into shape, and indifference by the public.

He succeeded Sir George Jefferson in the top job as a lifelong BT insider (his father worked for the General Post Office). He rose to the top because he was an adept committee man, schooled in the ways of the old bureaucracy.

Yet in the past three years the quietly spoken, analytical Scot has confounded his critics. BT's quality of service has improved markedly. The trunk network has been modernised. Costs are being cut aggressively. Management organisation has been radically overhauled. The group has a new corporate image. Most importantly Vallance successfully charted its way through the recent government review of the telecommunications industry.

Once a somewhat ungainly and shy performer, he has become confident and relaxed. And while the temptation to continue roosting in BT must be strong, he is on record as saying he'll start thinking about his next job in 1994.

By then the remaining government stake in the company should be sold. Morover he should have collected his knighthood. What better equipment could a 52-year-old have for leaving the nest?

History lesson

■ A couple of points need to be made about the Governor of the Bank of England's 17 per cent pay rise. Robin Leigh-Pemberton is hardly a poor man and could easily have made a gesture by not accepting the increase.

His predecessor, Gordon Richardson, was well-known for foregoing a portion of his salary. In nine out of his ten years in Threadneedle Street, he took less than he was entitled to. Since Leigh-Pemberton took over his salary has tripled.

Indeed, Lord Richardson not only believed that the Governor should set an example, but he also expected his senior staff to make sacrifices. One former Bank director recalls the annual ritual whereby Richardson would delay for several months his approval of pay increases. These would eventually come through, appropriately backdated, but sufficiently tardily to drive home the message that people should not look upon money as their sole reward.

And while we are still on the subject of Bank of England pay, how about a rise for the rest of the non-executive directors? Their pay has been fixed at £500 per annum since time immemorial. Just allowing for inflation in this century would mean raising their salaries to £25,000.

Dynasty

■ Canada's Bronfman dynasty shows no sign of loosening its grip on Seagram, the world drinks giant. The latest family member to move into the boardroom is Samuel Bronfman II, whose grandfather, the first Samuel Bronfman, bought Joseph E Seagram and Sons in 1928 from the profits he made selling Canadian liquor to US bootleggers during Prohibition.

The younger Sam first caught the public eye in 1975 when, at the age of 23, he was involved in a messy kidnapping in New York. He has kept a low profile since then, spending the past five years running a Seagram wine subsidiary in California. Sam's father, Edgar, is still in the driving seat at Seagram as chairman and chief executive. But with his 62nd birthday approaching, Edgar is clearly thinking of passing the torch to the next generation. Sam's brother, Edgar Jr, is already president and chief operating officer, and the obvious heir apparent.

"I promise to pay the Governor on demand the sum of..."

Tit for tat

■ The timeless war between high minds and low tastes has entered the high-tech era in Hong Kong where, although pornographic films and videos are openly available, high-minded censors electronically blur out the naughty bits of the actors.

The opposing side is counter-attacking by marketing a widget that brings them back into focus. It is an optical decoding device looking like a pair of night-vision goggles priced from about £20 to £50, presumably dependent on magnification.

In support of the television and entertainment licensing authority that does the censoring, veteran legislator Peggy Lam – who once burned pornographic books in a public protest – is demanding a ban on the decoders.

But they have a technical flaw likely to deter sales to all but the most concentratedly depraved viewers. When the naughty bits stand out, everything else on the screen is scrambled.

Smoke signals

■ Yet another informative press release from the European Bank for Reconstruction and Development tells the waiting world that its president Jacques Attali sent a letter on Wednesday to Yugoslav president Ante Markovic.

It confided that "a stable structure for the new Yugoslavia" was needed "for it to make full use of international economic assistance". Stability was important for Yugoslavia's development as a democratic market economy and "for its participation in the new enlarged Europe."

Attali further vouchsafed that "at this difficult time" for Yugoslavia, he was at Markovic's disposal "to help in any way possible".

The inference some are drawing from such cryptic smoke signals is that, despite some shareholders' fervent desire that the EBRD president should confine himself to running a bank, he still sees his main mission as chief torch-bearer for a "new enlarged Europe".

Didn't he do well

■ Old dogs can learn new tricks, to judge by veteran tv entertainer Bruce Forsyth's address yesterday to a London conference of independent financial advisers considering Securities and Investments Board topics.

"Nice to Sib you, to Sib you nice," he said.

Sensitive site subject to commercial climate

The wraps have come off what will be one of London's most important property schemes: the redevelopment of Paternoster Square, the 4.2-acre site adjoining St Paul's Cathedral.

The position and scale of the development will make it one of the most prestigious in London. However, its commercial potential has to be reconciled with the architecturally sensitive nature of the site.

The Prince of Wales, who criticised the proposals for the site put forward in an international competition in 1987, has argued that 20th-century developers' instincts – their tendency to build quickly and cheaply, and as high as regulations allow – would have to be suspended if Paternoster Square was to be "both a vindication of tradition and a model for the next century".

By opting for a plot ratio (ratio of built space to land) of 4.2:1, 20 per cent less than the maximum permitted for the site, the developers have gone some way towards meeting these concerns. Nonetheless, criticism may focus on the density of the scheme. The new buildings vary from four to nine storeys and will provide about 80 shops, comprising 125,000 sq ft of retail space and six office buildings, providing 630,000 sq ft of space.

The commercial success of the project, which will cost the developers an estimated £800m, will depend on the scale of the recovery of the London property market. Some analysts think the developers' expectations of rents of more than £60 per sq ft in 1994-95 may be optimistic.

The three partners, Greycoat, a quoted UK company, Mitsubishi Estate Company, a Japanese real estate company, and Park Tower Group, a US developer, have each an equity stake of £15m. The Venezuelan Organización Diego Cisneros, which sold the site at the end of 1989, also has a part participation in future profits.

Some subordinated debt, a low-security form of debt, has been provided by Mitsubishi, and £117m has been provided by the Swiss Bank Corporation as a short-term loan. Construction finance will not be arranged until the planning process is further advanced.

The developers intend to retain the project as an investment. It also provides the first opportunity for three international partners to co-operate on a venture of this sort.

Vanessa Houlder

New neighbours for St Paul's

Colin Amery previews an exhibition of ideas for a classical re-design of Paternoster Square

At last a planning application is being made to replace the squalid architectural mess that is known as Paternoster Square – the northerly neighbour of St Paul's Cathedral. It has always been hard to believe that the miserable collection of office blocks and draughty pedestrian squares of the 1960s were once considered suitable neighbours for St Paul's.

For three weeks from tomorrow an exhibition of the latest proposals can be seen in Paternoster Square itself, in former shops between St Paul's Underground station and the west front of the cathedral. This seems to me to be one of the most important architectural matters affecting the City of *London and* the public has an opportunity to say exactly what it thinks about it in the next few weeks.

In 1956 the fashionable town planner William Holford was commissioned by the City Corporation to advise on an architectural policy "with regard to all buildings within the orbit of the dome of St Paul's". In his master plan for the area – which amazingly was enthusiastically adopted at the time – Holford ruled out any reinstatement of the streets or buildings that had been destroyed or damaged in the London blitz. He felt that "more is to be gained by contrast in design ... than from attempts at harmony of scale or character or spacing". He parked vehicles on ground level and raised a series of pedestrian decks which were then surrounded by a series of buildings.

The new master plan has been prepared by a large and talented group of architects working for the new consortium of owners of the site and led by a troika of master planners: Terry Farrell, John Simpson and Thomas Beeby. Each firm has designed individual buildings in the scheme and developed themes which unite the work of all the other architects selected to design buildings. The other architects are Robert Adam, Paul Gibson, Allan Greenberg, Demetri Porphyrios and Quinlan Terry.

With this roll call of names it is no surprise that the design of the scheme is classical in spirit. But any developer building on this important site as an immediate neighbour to the Wren cathedral faces more than a stylistic dilemma. Any building is restricted by "St Paul's heights" (a complex series of regulations rather belatedly devised to protect views of St Paul's). There are also rules about what can happen below ground to protect the stability of the cathedral, and rules about conservation areas and the relationship to a listed building.

What has been lacking in the City of London during the development of the Paternoster scheme has been any sense of a plan for the whole of the vital area around St Paul's. The consortium wants some 837,000 sq ft of offices and some 150,000 sq ft of shops to make the economics of the scheme work. This means a very high density as there are considerable constraints above and below ground. These realities make Paternoster a very hard nut to crack. In an ideal world people would live around the cathedral; there would be hotels and bookshops, galleries and museums. The reality is different and – when you have to pay to go into the cathedral – offices and a shopping centre are inevitable.

The architects' problem has been how to make the inevitable development formula more attractive and more architecturally appropriate. The key to their success is the plan. John Simpson prepared the original proposals as a rival to an earlier developer's unsuccessful competition. His plan formed the starting point for what can be seen in the exhibition.

The essential principles remain. Paternoster Row and Paternoster Square and other routes have been reinstated for the pedestrian at ground level. The proper alignment of the churchyard has been restored. Views of the cathedral have been carefully considered and there will be more of them from ground level. Height restrictions mean that buildings range from five to nine storeys. Materials are limited to brick and stone. Temple Bar is to be returned to the City and will stand just to the north of the cathedral near the west front.

The heart of the scheme is the new square. This is a two-level space with a series of classical pavilions that flank broad flights of steps. To stand at the centre of it will be an extraordinary experience – grand and enriched neo-classical styled buildings surround a space that is a hybrid of the centre of Siena and the Campidoglio in Rome. It will be a rich sight, and I am sure an enjoyable one.

The decision to have eight architects working here has brought about an unusual sense of richness. The adoption of the classical language has resulted, not in a dull and uniform palette but in an ingenious and vigorous series of solutions which do belong in the London tradition.

The exhibition is exceptionally well presented. It is possible quickly to understand the plan and see its advantages. The quality of drawing is high and there is a sense of a sober academic tradition recovering from a night in the wilderness.

It is essential that the quality of this scheme is as high as possible – when you follow the classical route it is an unforgiving one, insistent upon lasting quality in materials and details. I hope that the owners of the neighbouring sites which are not as yet part of the scheme will feel inspired to co-operate. For once comprehensive redevelopment does not mean uniformity but a level of quality that can only bring pleasure.

**Exhibition open from 10am to 6.30pm Mondays to Fridays; 10am to 4pm on Saturdays.*

Joe Rogaly

The mortgage factor

Wealth, not health, will determine the outcome of the next election. Conservatives who comfort themselves with this thought should note the concomitant warning, which is that past performance is not necessarily a guide to the future and that opinion polls can go down as well as up. Still, it seems reasonable to assume that if there is enough money in the voters' purses many of them will vote Tory once again.

That is why the response of the building societies to the polite interventionist pressure put upon them by Mr John MacGregor, leader of the House of Commons, may be the most important piece of political news of the week. Speaking at a Building Societies Association dinner in Glasgow on Tuesday night – from a text carefully checked with 10 Downing Street and the Treasury – Mr MacGregor pointed out that many homeowners have yet to see the benefit of interest rate cuts. Translation: if mortgages stay high Labour might win. This fits with Mr John Major's known belief that the benefits of the lowering of interest rates over the past six months have yet to work through.

The very next day the Halifax, the market leader in housing finance, announced that borrowers who had previously signed up for annual re-ratings of their mortgages would be permitted to move to a system of changes tied to the movement in interest rates. That means that the next time the government *knocks half a point off* base rate, up to 1.2m voters – sorry, Halifax "budget plan" borrowers – will be eligible for a juicy reduction in their monthly bills. Other lenders are following suit.

Halifax assures me that this has nothing to do with politics. Its decision was taken a fortnight ago. I am sure that the market leader is telling the truth. Yet the plot thickens. Reports from the Glasgow conference suggest that several delegates wonder whether Mr MacGregor's speech contained an implied bargain: you play ball on the mortgage rate and we will see what we can do about clause 50 of the Finance Bill, which prevents a number of societies from reclaiming double taxation paid in 1985 and 1986.

Mr MacGregor will, of course, deny any such intent. Fair enough. British politics is rarely as blatantly corrupt as that, although more subtle deals are not unheard-of. Let us simply watch what happens to clause 50; we may see how subtle desperate politicians can be. But do not expect too much. A government that missed the opportunity to make a few behind-the-scenes phone calls to the chief executives of the opted-out hospitals to tell them not to rock the boat could be incapable of simple skullduggery.

My own doubts are not to do with such corruption as may or may not be in the air, but rather the unfortunate timing of it all. The uncanny fit between the mortgage rate and the level of support for the Conservative party was illustrated in a graph in this column in September 1989.

The promise of a boost to voters' cash fits with an October election

Since then many similar graphs have appeared all over the place. But does the correlation hold? Yes and no. There seems to have been a small wobble over the past month or so, but the general relationship persists.

The important question mark hangs over the effect on election timing of the increasingly *popular yearly budget* plans. At the end of every January Halifax calculates a rate that will apply for the following payment year, which in its books starts at the beginning of April. Last year that rate was 14.5 per cent. It held throughout 1990-91, even though the variable rate, paid by Halifax's 500,000 borrowers not on budget plan, stood at 15.4 per cent between March 1 and November 1. The effect was that the 1.2m budget plan payers accumulated extra debt during those seven months.

If they stay on budget plan this year they will still pay 14.5 per cent, but flexible payers are already two cuts down, to 12.95 per cent. Thus budget plan payers are paying "too much" this year, so the 1990 debt will be wiped out. What Halifax is now offering is a choice: go over to flexible payments but first repay the excess debt accrued last year *or* come down to the flexible rate just for this year but understand that you will owe more, and pay more interest, from next April 1. This offer will not be *promoted* to mortgage holders but merely available to them. After all, the Halifax is not Conservative Central Office.

Yet the promise of a short boost to voters' cash flow fits in with an October election. Taking the money back in April does little for a May 1992 election, unless overall rates are much lower by next January 31 – when the 1992 budget plan rate is to be fixed.

I am sure that the Tories have mastered this calendar, and not only as it applies to the Halifax but to all mortgage lenders. Mastery is difficult. Every society is different. The Council of Mortgage Lenders estimates that 40 per cent of borrowers are on some form of annual review; these are available at eight of the 13 largest building societies and three of the big four clearing banks. Their review dates vary, but a January cut in interest rates should catch most of them in time for a spring vote.

In the good old days the government might have been tempted to arrange such a cut, and thus buy the election. But this year it was boxed-in by the exchange rate mechanism. It had to tip-toe past January with a series of *hesitantly-timed half-point* reductions in base rate. The Treasury can no longer manipulate rates in concordance with the complicated mechanics of the housing finance market. To the Conservatives' chagrin that market itself now seems anarchic. This is doubtless a result of some government or other deregulating financial services. Perhaps Mr Major and his team will reflect on that as they finally gear themselves up to engage with the well-trained forces of the Labour opposition in what promises to be a highly-charged summer campaign.

LETTERS

Explaining part, but not all of the evidence

From Mr Vladimir Brailovsky.

Sir, In an article by Edward Balls ("International Economic Indicators", May 13), an argument is put forward to explain why in the more "efficient" economies of Japan and Germany the ratio between gross domestic product at the current exchange rate and GDP at purchasing power parity (PPP) is higher than in less-advanced countries, such as the US and the UK. This is based on two assumptions: 1. "The prices of tradable goods are brought into rough equality by global competition", ie: the so-called "law of one price" operating at an international level, when measuring in a common currency; 2. The higher "real exchange rate", which the author defines as "the relative price of non-tradable goods in terms of tradable goods", in the more efficient economies.

Since "efficiency" does not vary much in the short-run, therefore the "real exchange rate", as defined by Mr Balls, would also remain relatively constant. Thus, everything else equal, all domestic prices in local currency – tradables or non-tradables – should move in exact proportion, given a reasonable time lag, to the nominal exchange rate.

But if this were the case, why is it that "large fluctuations in exchange rates can give a misleading picture of changes in economic fortunes", as the author exemplifies by the 21 per cent depreciation of the Yen against the Ecu between 1989 and 1990. According to his theory, Japan's GDP in Ecu terms should have remained approximately the same in that period, instead of contracting more than 11 per cent, in spite of having grown, in constant (Japanese) prices, by 5.6 per cent. To comply with the theory, moreover, Japan's domestic inflation rate should have been about 21 per cent, far above the actual rate. In fact, estimating at PPP would have been a rather idle exercise if the predictions of the theory were correct.

One has to conclude that, in real life, prices, even of tradables, do not move in proportion to the nominal exchange rate, i.e. that the "law of one price" is usually transgressed beyond recognition, although certainly there is a loose association between prices and the exchange rate. Similarly, the price ratio of non-tradables vs tradables is, in fact, among other things, a function of the exchange rate, through its effect on the real wage rate (the nominal wage divided by the domestic demand deflator), and not only of "efficiency". This is so given the large wage constant of non-tradables.

Economics is still plagued by Ptolemaic laws that explain part of the evidence but not all.

Vladimir Brailovsky,
Economia Aplicada,
Monte Pelvoux 111-301,
Lomas de Chapultepec,
11000 Mexico

Praise for BAe collaboration

From Mr S A Moore.

Sir, I was astonished to read Professor Roland Smith's comments ("Research skills rare in north", May 21) to the NEDC concerning the lack of research collaboration between British Aerospace and the University of Manchester. On the contrary, the range of our collaboration, through our department of engineering, could hardly be more fruitful.

A £4m wind tunnel is now operating in the department's aeronautical research laboratories, thanks to BAe's generosity. Research contracts in aeronautical and dynamics engineering to the tune of £1m are currently being funded by BAe. BAe supports research in materials science here at the rate of about £100,000 a year.

We run in-house courses for BAe staff, have staff and student exchanges, and are a main supplier of graduate engineers to BAe (39 in 1991).

These are just some examples of our working together. I and my professorial colleagues are delighted that BAe is so closely linked with the university. Long may it continue.

S A Moore,
acting vice-chancellor,
University of Manchester

Curious conclusion on core skills

From Mr Jack Straw.

Sir, In his article, "Bottom of the class" (May 21), about Britain's poor record on education and training for 16- to 19-year-olds, Andrew Adonis takes issue with Labour's list of "core skills" and says that they are of "dubious value in constructing a common curriculum for post-16".

This conclusion is curious. Our list of core skills was in fact drawn directly from the Confederation of British Industry's own 16-19 proposals. They include "values and integrity", "positive attitudes to change", and "understanding of the world of work", as well as the application of numeracy and technology and problem solving. We agree with the CBI that these are crucial skills for the 21st century. The case for such skills was underpinned by the recent report of the government's own Advisory Council on Science and Technology which said of A-levels that "they place too much emphasis on learning facts at the expense of understanding fundamental scientific principles and the development of scientific skills", and that "they reduce the scope for arts students to be scientifically educated and for science students to develop wider communication and other personal skills".

Labour's proposals for an integrated 16-19 examination meet the overwhelming consensus for reform. It is sad that by its obsession with unreformed A-levels the government's do not.

Jack Straw MP,
House of Commons
London
SW1A OAA

Criticisms of Takeover Panel not contradicted

From Prof J L Jowell.

Sir, Mr David Calcutt, chairman of the Takeover Panel, takes issue (Letters, May 15) with my suggestions about some procedural inadequacies of the panel ("Self-regulation under threat", May 9). Yet his reply seems to support rather than contradict my points.

First, he denies that the panel's composition gives the appearance of bias. Yet he supports that suggestion by pointing out that only three of its 15 members (excluding the chairman) are industrialists.

Second, he disagrees with me that the panel's consultative procedures are minimal. That suggestion, too, is supported by his demonstration that those procedures are conducted entirely within the panel's membership.

Third, while alleging that I am "confused" about the lack of *inter pares* hearings before the panel, he admits that the panel's executive (to which I was obviously referring) "does not normally find it helpful...to hear arguments from both sides at the same time". It is difficult to understand why the full panel (on appeal from the executive's decision) does find it "helpful" to hold *inter pares* hearings. The right to appeal should not excuse the lack of a fair hearing in the first place.

Finally, exclusion of legal representation as of right before the panel is justified on the basis that it would lead to delay and "legalism".

By what authority does Mr Calcutt, a barrister himself, imply that his co-practitioners are apparently incapable of grasping the rather basic fact that the panel follows the purpose rather than the letter of its code?

Jeffrey Jowell,
Faculty of Laws,
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Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

Customers first

From Mr Peter McKenna.

Sir, In its comments on water companies, Lex (May 18) sees only two routes for their surplus funds – back to the owners or into diversification by way of acquisition. The millions of tied customers of such monopoly suppliers might think that they are worthy beneficiaries, especially as they provided the money in the first place. This is particularly the case when they are subject to an inflation-plus price increase policy, currently +14.2 per cent for Thames, and authorised for the next 10 years.

Peter McKenna,
Tithe Barn Cottage,
Temple Lane,
Bisham, Bucks

FINANCIAL TIMES
Friday May 24 1991

EASTERN EUROPE

Fiat in deal with Soviet car maker

By **Haig Simonian** in Milan and **Kevin Done** in London

FIAT, the Italian automotive and industrial group, has reached preliminary agreement with the Soviet Union to take a 30 per cent stake in Volzkij Automobilnij Zavod (VAZ), the producer of Lada vehicles and the country's biggest car maker.

A memorandum of agreement, which envisages the production of 300,000 cars a year of a new model at VAZ's Togliatti plant, on Volga river, was signed in Moscow in late April, but only made public yesterday. The move is part of the eventual privatisation of VAZ.

However, the Soviet Union is being forced by financial difficulties to delay work on its ambitious project to build a plant producing 900,000 cars a year at Yelabuga, 1,000km south-east of Moscow. This project is also part of its industrial partnership with Fiat.

In a significant change in Soviet automotive strategy, Moscow is planning to transfer the first phase of the Yelabuga project to VAZ's Togliatti plant.

Fiat's projects with the Soviet Union are among the most far-reaching undertaken by any western car makers in eastern Europe.

No details have been given about the size of the new investment at VAZ, nor about management control. Fiat said only that it would be "engaged" in the management and development of the company.

On the Yelabuga plan, Fiat said yesterday: "The project is suspended, but not dead." There would be a "pause for thought", but agreement on the one scheme did not annul the other.

Launched in November 1989 as a scheme to produce 300,000 cars based around a newly designed Fiat Uno-type model, the project was expanded in March 1990 to include a further 300,000 cars a year based on the smaller Fiat Panda.

Infrastructure work for the Yelabuga plant, which was due to start production between late 1993 and early 1994, has already started. However, Fiat said the group had not yet been involved in spending for the product.

VAZ is the main car producer in the Soviet Union, accounting for some 750,000 of the country's 1.2m annual output of motor vehicles. It employs 95,000 workers, with a further 25,000 engaged indirectly in the components industry. Around 45 per cent of its cars are exported.

French 'superministry' is short on detail

By **William Dawkins** in Paris

FRANCE'S industrial competitors are breathing a sigh of relief at the emerging evidence that the new French government is not about to revive industrial intervention, despite the shift to the left marked by the arrival of Mrs Edith Cresson as prime minister.

One initial cause for alarm was Mrs Cresson's creation of a new "superministry", embracing finance, industry, telecommunications and foreign trade, her only significant innovation since taking office.

The suspicion was that the new body would behave like an enlarged version of Japan's Ministry of International Trade and Industry, carrying out a firm industrial policy in line with Mrs Cresson's crusading rhetoric.

Yet Mrs Cresson has been unable to wring much hard detail from her industry policy. She has merely called for more public spending on industry – an objective limited by her commitment to continue the former government's budgetary rigour – and promised to double the number of engineers in France and to push for a law to ensure small businesses get paid faster.

The general need for a firm national and European industrial policy was the keynote of her maiden speech to parliament as prime minister, the thin content of which was greeted with disappointment from all political sides, and cruelly described by one former Gaullist minister yesterday as "both flat and hollow".

Far from being Mrs Cresson's new weapon, the new superministry was the result of last-minute horsetrading, to obtain the loyalty of Mr Pierre Bérégovoy, the finance minister, whose continued firm management of the French economy was seen as indispensable to the new government's success.

Mrs Cresson had at first wanted to boost the powers of the old Industry Ministry by giving it control over part of the treasury, but Mr Bérégovoy managed spectacularly to reverse this attempt to nibble away at his already formidable empire. So the economically *liberal instincts* of Mr Bérégovoy, now the most powerful finance minister in France's recent history, will set the tone for French industry policy, *rather than Mrs Cresson*.

This means hardly any change from the pragmatism of the old industry minister, the politically independent former head of the Saint Gobain glass group, Mr Roger Fauroux. The new organisation is a fair reflection of the dwindling influence of the old industry ministry, whose freedom to pump new capital into France's huge state sector was being increasingly curbed by Mr Bérégovoy.

It also marks an increase in the Finance Ministry's power over France Télécom – always sensitive over having its rich cash balances raided – only months after it was made independent from the old telecommunications ministry.

Edith Cresson: seeks more public spending on industry

That said, Mrs Cresson will have some influence on industry policy both as prime minister and through Mr Dominique Strauss-Kahn, the new junior industry minister under Mr Bérégovoy. She chose Mr Strauss-Kahn, who though only 42 is no lightweight as former chairman of the parliament's economics commission, specifically to be her voice on the government's economics team, say political observers.

There will be internal battles ahead on some of the hotter aspects of industry policy, like the arrival of NEC, the Japanese electronics company, as a shareholder in Bull, the ailing state-owned computer maker.

Bush beats move to block talks on Uruguay Round

By **Nancy Dunne** in Washington

THE Bush administration yesterday narrowly beat off an attempt in the US House of Representatives to deny the president the authority he needs to continue negotiations in the Uruguay Round and to launch talks for a North American Free Trade Agreement with Mexico and Canada.

With the help of the Democratic leadership and most of the House Republicans the administration defeated a resolution which would have denied President George Bush a two-year extension of "fast-track" trade negotiating authority. This authority ensures that legislation implementing trade agreements would not be subject to congressional amendments.

The administration argued that without an extension of the fast track the Uruguay Round would collapse and Mexico would refuse to negotiate a free trade agreement.

The Senate today is expected to vote on – and defeat – a similar resolution.

Approval of the fast-track is expected to inject new life into the Uruguay Round negotiations which have been languishing in Geneva.

Supporters of the disapproval resolution, introduced by Congressman Byron Dorgan, a North Dakota Democrat, argued that denying the president the fast-track would allow strict congressional supervision of the negotiations and prevent the loss of jobs to Mexico. The resolution was supported by labour, consumer and environmental organisations. It was opposed by business and industry groups.

Controversy over a free trade pact with Mexico has had the Congress in an uproar. While most members have little concern about the Uruguay Round, they fear the Nafta would result in a loss of manufacturing jobs to Mexico.

Mr Frank McCloskey, an Indiana Democrat, said Nafta would mean a radical restructuring of the US and Mexican economies. He and other members had hoped to amend the resolution to force the administration to bring Congress a review on March 1 of the state of the Nafta negotiations.

The Democratic leadership and the administration rejected that demand on the grounds that public discussion of the negotiations would give away the Trade Representative's negotiating strategy.

Congressman Ron Wyden, an Oregon Democrat, warned the administration that "pro-traders" like himself would not "jump ship today," but unless environmental concerns and job issues are addressed in the final Nafta pact, "we're going to lead the mutiny ahead."

THE LEX COLUMN

The embarrassment of BT's riches

Poor old BT. During a nasty recession, the UK's largest quoted company produces more than £3bn pre-tax profit despite improving the quality of its service. Its reward is a torrent of abuse alleging the systematic exploitation of its customers. Such heady profitability is not really its fault: it was, after all, the government's decision to thrust it into the private sector with its monopoly largely intact.

Nor can BT be blamed for taking advantage of the limp regulatory regime created by its main shareholder after an incomplete review of the industry. It is further in shareholders' interests that almost 19,000 staff should be got rid of to help produce a 25 per cent return on capital. For every 10,000 workers it lays off, BT can finance a 5 per cent wage increase, so wage costs will be flat or falling for several years yet. Since much of this year's profits growth came from cost containment, this may be just as well.

Yesterday's 3 per cent rise in the shares suggests the market takes a relaxed view of the political pressures on BT. Its longer perspective ought to be less sanguine. BT's problem is to increase earnings against a background of growth in the volume of calls depressed by recession. By the time the economy and call volumes recover, Mercury should have increased its market share. In addition, BT's return on capital is likely to be forced towards that of other utilities. In itself, that would have knocked nearly £1bn off last year's operating profits. With the yield on the shares at a premium to the market for the first time in five years, much is being taken on trust.

UK trade figures

At least there is one statistic which gets better as the UK economy gets worse. April's visible trade deficit, excluding oil and erratics, was the lowest since 1985 and the best result in relation to GDP for almost 10 years. It may be too early to alter assumptions for 1991 as a whole, especially in the absence of a reliable first quarter estimate for invisibles. But it could be that the Treasury's forecast for a £6bn current account deficit will turn out too gloomy.

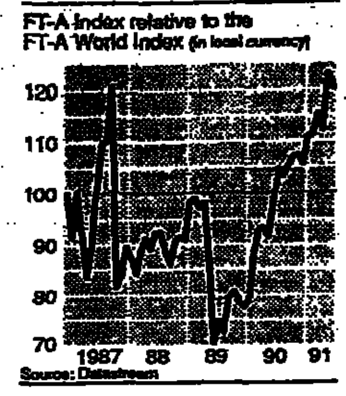
The market, of course, has other things on its mind, not least the question of whether base rates will be cut this morning. The shadow of the trade figures will no doubt return sooner or later; but on the evidence of yesterday's figures, it is likely to be later. Import volume fell back in April after March's unexpectedly sharp surge, though looking at the latest three months the weaker trend in imports is probably coming to an end.

But the really big surprise is that exports are holding up so well, particularly to the countries of the European Community. Margins are clearly bearing the brunt. However, the overall picture supports the claim that sterling is not necessarily uncompetitive within the ERM.

The outlook becomes much cloudier in 1992, the key being the rate of recovery in consumer spending. But with a stronger dollar helping trade with the US, a rebound in the deficit is probably one of the few economic embarrassments Mr Major will not have to cope with before the next election.

Hong Kong

FT-A Index relative to the FT-A World Index (in local currency)



Source: Datastream

Hong Kong

There is nothing Hong Kong investors seem to enjoy more than a good panic. The 4 per cent slide in the Hang Seng index over the past three days may yet turn out to be a storm in a Chinese trader's tea-cup. The deadlock in the Sino-British airport negotiations is serious but not a real surprise. Investors have long been aware that China wants to call the shots.

The market was ripe anyway for at least a pause in the upward trend which has brought the Hang Seng within a hair's breadth of its 1987 high. Also weighing on sentiment is the US threat to withdraw trade concessions from China. That would hit Hong Kong's entrepot trade hard and undermine whole sectors, like the toy industry, which rely on low-wage manufacturing in Southern China. But the risk here too can be easily overstated.

As for the market fundamentals, real interest rates are strongly negative and monetary conditions cannot be tightened without jeopardising the local currency's link to the US dollar. High liquidity ought to sustain the all-important property sector a little longer, while also making this week's HK$5.6bn (£415m) Hopewell rights issue digestible despite its size. That should underpin share prices, though political worries will ensure the trend remains erratic. In short, a market for traders rather than investors.

UK brewers

Now that Whitbread has rounded off the reporting season for the big UK brewers, a strikingly consistent pattern of performance is emerging within the industry. The best starting point for comparison is four years ago, when it first became clear that the competition authorities were a serious threat to the industry's structure.

Since then, Bass has in broad terms increased its earnings by 40 per cent, Whitbread by 50 per cent and Guinness by 120 per cent. The pattern is borne out in share price performance and earnings multiples: Bass at the bottom, Guinness at the top and Whitbread somewhere in the middle.

It cannot be accidental that the same pattern is reproduced in beer production, only in reverse. Among the UK's big five brewers Bass is the biggest, Guinness until lately the smallest. It has just been supplanted in that respect by Grand Metropolitan, the second best performer among the five, which has got out of brewing altogether. Large-scale beer production, it seems, has become a mug's game.

In Whitbread's case, it may not be quite that simple. There has lately been a detectable change in the company's emphasis on lager back to real ales. There is no real evidence yet of a reversal in the UK public's taste, though yesterday's 18 per cent jump in annual earnings from the local London ale brewer Young & Co is worth bearing in mind. But Whitbread's recent strategy has been to promote the ales of the regional brewers in its pubs and then, as in the case of Devenish this week, take on the brewing as well to fill up its surplus capacity. Whitbread's shares are on 10 times earnings, assuming only a modest improvement this year. Conceivably, that could be on the cheap side.

US missile secrets exported

Continued from Page 1

and receipts show that the equipment - which was shipped without licences - was restricted US technology that would normally require a licence.

Under US law, unless there is an explicit Presidential "finding" that approves a covert operation on national security grounds, the CIA is obliged to report any illegal activities it discovers. Such presidential findings are classified and require notification of the chairmen of congressional intelligence committees.

A senior member of the US Congress who chaired an intelligence committee when some of the key missile technology shipments occurred has said that he never received such a notification from the CIA and was never informed of any shipments to South Africa.

US officials say that the various ISC shipments violated *several US laws including*:

- the separate US embargoes on the export of militarily useful technology to either South Africa or Chile;
- *the Export Administration* Act which requires licences from the Commerce Department; and
- the Arms Export Control Act which requires State Department approval for exports of items on its munitions list.

The claim by US officials that the CIA was aware of the illegal shipments injects a potentially embarrassing issue into President George Bush's nomination of Mr Robert Gates as the new director of the CIA.

Mr Gates - now deputy national security adviser to President Bush - served as dep*uty director of intelligence and* deputy CIA director during the period in which the illegal missile technology shipments took place.

President Bush attacks Israeli policy over new settlements

By **Hugh Carnegy** in Jerusalem and Our Foreign Staff

PRESIDENT George Bush yesterday added his voice to criticism of Israeli settlements in the occupied territories, declaring that they did not "enhance the prospects for peace".

"I have appealed to Israel not to move forward with more settlements," Mr Bush told reporters on the White House lawn. "The settlements (issue) has been and will continue to be a difficult problem with us."

Mr Bush, however, used somewhat milder language in criticising Israel than Mr James Baker, his secretary of state, did on Wednesday to a House of Representatives subcommittee. Mr Bush also said the US was not putting pressure on the Israelis, something which most Arabs regard as vital if Israel is to be brought to the negotiating table.

"I can understand the secretary's concern, and perhaps frustration," Mr Bush said. "However, Israel is moving, in some ways that I will not discuss with you, and so I have no reason to be totally pessimistic."

In Israel yesterday, Mr Baker's criticism of accelerated Jewish settlement in the territories was echoed by Mr Shimon Peres, the leader of the opposition Labour Party, but rejected by the government of Mr Yitzhak Shamir.

Mr Peres, who has bitterly attacked Mr Shamir for not doing more to aid Mr Baker's efforts to convene a Middle East peace conference, said building settlements in the West Bank and Gaza Strip should be suspended, as Washington has called for. "I clearly see the damage they cause," he told Israel Radio.

Mr Baker called the settlements the biggest obstacle he faced in trying to persuade Arab states and the Palestinians to negotiate with Israel.

Mr Shamir has said the settlements would eventually be the subject of negotiations. But at the same time he has supported a surge of new settlement building by Mr Ariel Sharon, the housing minister, who openly declares that the settlements are designed to block any chance of handing back the territories to Arab rule.

Tetra Pak bid cleared

Continued from Page 1

Commission for its fast work. The deal will almost double Tetra Pak's annual revenues, of which just under half would come from the European Community.

Brussels was concerned that the merger would give the enlarged company the capacity to provide both food processing and packaging machines, *squeezing out competitors* which could supply only one-half of the production line.

No formal undertakings have been made by the two *companies. But the Commis*sion seems to have been encouraged by promises that Alfa-Laval and Tetra Pak will continue to build machines compatible with rival models, and by EC dairies' comparative lack of concern about the impact of the merger.

The EC's merger-control task force, which began work last September, has now completed, in effect, three full inquiries and is beginning to stamp its mark on the job, despite strong internal pressures to use decisions to shape European industrial policy.

Some senior Commission officials apparently wanted *this week's Fiat battery merger* to go through without conditions, in the hope this would produce a strong "Euro-champion" in the battery market.

Bank of England operations fuel speculation on rate cuts

By **Peter Norman and Rachel Johnson** in London

BANK of England money market operations yesterday fuelled speculation that the UK government may be planning to cut bank base rates today to give the economy an added boost.

Hopes of a rate cut to 11.5 per cent from the current 12 per cent were reflected in an easing in the three-month interbank money market rate to around 11¾ per cent last night from 11½ per cent. It *also followed April trade fig*ures that added to signs that the economy had registered no improvement since the first quarter.

Market speculation about an imminent rate cut intensified after the Bank broke with recent practice – by lending overnight to the discount houses instead of insisting on lending until the beginning of next week. Today, when £1.425bn ($2.45bn) of Bank of England loans to the discount houses mature, had already been tipped as a possible date for monetary easing.

While some recent economic indicators, including this week's first-quarter gross domestic product figures, lend support to the government's belief that recovery should set in around mid-year, anecdotal evidence has suggested little revival of activity in April.

Political pressure for lower interest rates has grown amid *calculations* that the Bank could approve a modest half-point rate reduction without compromising its belief in the need to maintain a tight monetary policy to combat inflation.

Britain's current account deficit steadied in April at £339m, almost unchanged from £336m in March. April's visible trade deficit was also virtually unchanged at £839m against £836m in March. Exports and imports in April were both unchanged in value terms, at £8.5bn and £9.3bn respectively.

The figures from the Central Statistical Office (CSO) drew a mixed interpretation. The deficit on visible trade, excluding oil and erratic items, narrowed to £845m in April from £1.1bn in March, pointing to a marginal improvement in the underlying position. The CSO concluded that the previous trend of falling imports was halting.

Trade fears, Page 8

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	19	66	Berlin	C	13	55	Caracas	F	32	90	Faro	S	25	77	Islamabad	F	34	93
Algiers	S	23	73	Biarritz	S	20	68	Casablanca	S	28	82	Florence	F	22	72	Istanbul	S	19	66
Amsterdam	F	13	55	Bombay	S	33	91	Chicago	R	21	70	Frankfurt	C	13	55	Jakarta	C	33	91
Athens	F	23	73	Bordeaux	F	24	75	Cologne	C	12	54	Geneva	F	21	70	Jersey	S	19	66
Bahrain	S	28	82	Boulogne	F	15	59	Copenhagen	S	11	52	Gibraltar	S	21	70	Johannesburg	S	22	72
Bangkok	C	33	91	Brussels	F	14	57	Corfu	S	21	70	Glasgow	R	15	59	Lima	C	23	73
Barcelona	S	20	68	Budapest	S	15	59	Dallas	C	23	73	Helsinki	R	8	46	Lisbon	S	26	79
Beirut	-	-	-	Buenos Aires	F	18	64	Dublin	C	19	66	Hong Kong	F	30	86	London	C	17	63
Belfast	C	16	61	Cairo	C	25	77	Dubrovnik	S	22	72	Innsbruck	C	17	63	Los Angeles	C	13	55
Belgrade	C	15	59	Cape Town	C	18	64	Edinburgh	F	15	59	Inverness	S	14	57	Luxembourg	S	13	55

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	27	81	Milan	S	25	77	Nicosia	S	22	72	Salzburg	F	15	59	Tenerife	S	21	70
Madrid	S	27	81	Montreal	F	13	55	Oporto	S	31	88	San Francisco	S	9	48	Tokyo	S	27	81
Majorca	S	19	66	Moscow	C	12	54	Oslo	F	13	55	Seoul	C	31	88	Toronto	C	19	66
Malaga	S	21	70	Munich	S	15	59	Paris	F	17	63	Singapore	C	31	88	Tunis	S	25	77
Malta	S	23	73	Nairobi	F	21	70	Peking	C	17	63	Stockholm	C	5	41	Valencia	S	28	82
Manchester	C	16	61	Naples	S	21	70	Prague	F	11	52	Strasbourg	S	16	61	Venice	C	21	70
Manila	F	35	95	Nassau	R	27	81	Reykjavik	F	9	48	Sydney	S	20	68	Vienna	F	14	57
Melbourne	C	16	61	New Delhi	S	37	99	Rhodes	S	23	73	Taipei	F	33	91	Warsaw	C	11	52
Mexico City	C	30	86	New York	S	19	66	Rio de Janeiro	C	33	91	Tangier	F	22	72	Washington	S	22	72
Miami	F	26	79	Nice	C	18	64	Rome	S	20	68	Tel Aviv	S	23	73	Zurich	C	18	64

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

RECRUITMENT

JOBS: How executive pay varies in Europe

The Spanish spring a surprise

HERE'S a turn up for the book. Over a decade of making periodic checks on international pay-levels, the Jobs column has become accustomed to viewing the Swiss as the executive fat cats of Europe. Indeed, as each annual survey has come round, my only curiosity when working out the country-by-country ranking has been to see who'd be second.

But in roll the latest findings of the Brussels arm of the Wyatt consultancy, and what do we find? In terms of estimated buying-power – which is surely what counts most – the Swiss have fallen not one, but two places on average. The Luxembourgeois come second. And pride of place goes to the Spanish, who have had a socialist government since 1982.

Before building any conclusions on that, however, it is important to be aware of the limitations of the survey, and even more so of the deficiencies of my extracts from it which appear in the table over there to the right.

For one thing, while the findings are based on data from 1,249 organisations in 17 European countries, Wyatt's study does not measure up to the statistical rules for being representative. So it would be wrong to regard the pay-levels of the companies which took part as typical of those across all employers in the same lands.

For another thing, my extracts are confined not just to a mere dozen of the 17 countries, but to only three of the nine or 10 directors' jobs which in most cases the study spans. Anyone wanting the full report, priced at 30,000 Belgian francs, should contact Patricia Van Bergen of the consultancy at 273 Avenue de Tervuren (Box 4), 1150 Brussels, Belgium; telephone (02) 771 99 10, fax (02) 762 37 43.

The trio covered by my figures are chief executives and directors of finance and administration, and of personnel. For each, the table gives basic salaries, total money pay including bonuses etc, and a rough measure of buying power.

It is calculated by taking the total cash pay, deducting the particular country's standard tax and social security charges for a person with the specified income who is married with two children, then adjusting the resulting net pay in line with Wyatt's index of international price variances. Unfortunately, as it is evidently impossible to devise a consistent measure of housing costs across different countries, that important expense of life is left out of account.

The table's left-hand three columns of figures refer to the lower-quartile executive who would be a quarter of the way up from the foot of a ranking of all in the same kind of job and country. Next come the median manager mid-way in the ranking, and the upper-quartile one a quarter way down from the top. The standard averages are on the right. Where the countries appear in the table depends on the average buying-power of all three kinds of executive taken together.

Although that is a very approximate as well as complex measure, it is the best at present to hand – and, as may be seen, it puts the Spanish top of the heap.

One likely source of distortions is that there are marked variances in the sizes of the organisations making up the different countries' survey samples. But my search for connections between company sizes and positions in the pay league has come to naught.

Anyway, in the final analysis, the main explanation for Spanish supremacy in the table must lie in Wyatt's living-costs index which puts Spain at 87 compared with the UK's 100, Luxembourg's 96, and Switzerland's 146. Alas, I've no way of judging the accuracy of those estimates.

For what it's worth, however, my *FT* colleagues in Madrid have no difficulty in believing that Spanish top executive cats now take Europe's cream.

Michael Dixon

		LOWER QUARTILE			MEDIAN			UPPER QUARTILE			AVERAGE		
COUNTRY	JOB CATEGORY	Basic salary £	All cash pay £	Buying power £	Basic salary £	All cash pay £	Buying power £	Basic salary £	All cash pay £	Buying power £	Basic salary £	All cash pay £	Buying power £
SPAIN:	Chief executive	57,113	64,024	45,626	69,901	79,940	53,293	87,112	107,882	68,201	75,043	88,021	57,669
	Finance director	40,947	43,553	34,542	51,198	55,383	40,741	65,830	71,577	49,363	54,643	59,986	43,438
	Personnel director	38,139	39,810	32,031	48,472	52,662	39,345	60,890	66,973	46,958	50,905	55,024	40,477
LUXEMBOURG:	Chief executive	55,784	60,929	41,889	72,349	82,689	53,403	84,349	100,714	61,897	71,071	81,079	52,363
	Finance director	38,025	41,029	31,627	46,025	50,755	37,009	59,817	63,187	43,441	50,390	54,091	38,878
	Personnel director	38,473	42,423	32,701	46,788	50,589	36,888	59,851	65,079	44,064	48,747	53,809	38,675
SWITZERLAND:	Chief executive	76,254	84,366	41,027	89,264	104,376	48,613	106,585	138,755	61,774	94,536	113,612	52,137
	Finance director	59,180	61,619	31,654	67,133	70,660	35,330	78,625	93,145	44,021	69,838	77,605	38,271
	Personnel director	52,653	54,830	28,917	62,695	68,972	34,486	75,626	85,578	41,616	68,078	74,788	36,882
ITALY:	Chief executive	57,939	65,373	40,531	72,983	83,991	50,395	99,067	112,965	66,649	78,519	92,485	55,491
	Finance director	40,621	43,778	28,456	52,811	54,256	34,181	65,626	71,479	43,602	55,733	59,610	36,958
	Personnel director	38,673	41,699	27,104	48,399	51,171	32,238	55,280	61,228	37,961	46,498	51,769	32,614
GERMANY:	Chief executive	66,369	79,004	42,593	82,171	95,138	48,810	104,538	130,019	62,183	87,111	107,403	53,234
	Personnel director	47,034	49,552	28,869	53,654	58,023	33,300	66,403	70,731	39,363	56,976	62,233	35,175
	Finance director	42,807	46,233	27,337	53,863	56,979	32,701	63,014	68,705	38,236	55,532	59,672	34,246
FRANCE:	Chief executive	56,418	67,950	43,859	72,138	82,238	50,091	87,564	110,510	58,269	73,455	91,480	54,056
	Finance director	38,609	40,095	27,702	46,385	51,018	33,857	55,916	61,753	40,420	47,985	52,117	34,587
	Personnel director	34,309	36,575	25,602	46,184	47,802	32,158	56,288	61,009	39,933	46,237	49,749	33,015
UNITED KINGDOM:	Chief executive	46,000	54,130	35,726	59,220	67,110	43,622	74,490	86,160	55,142	69,390	83,670	53,549
	Finance director	31,980	34,970	24,129	39,240	41,750	27,973	51,360	55,940	36,920	43,840	48,190	31,805
	Personnel director	29,880	31,270	21,889	37,140	40,550	27,574	46,590	51,050	33,693	40,030	43,700	29,279
PORTUGAL:	Chief executive	22,649	25,090	24,704	33,045	36,534	34,848	47,152	51,521	46,765	36,303	40,440	37,952
	Personnel director	18,008	19,511	20,112	25,098	26,922	26,507	33,980	36,048	34,384	26,632	27,864	27,436
	Finance director	19,986	20,995	21,318	25,511	28,513	27,636	31,264	32,883	31,366	26,609	28,262	27,393
NETHERLANDS:	Chief executive	49,956	57,154	29,160	65,880	73,116	35,066	81,096	94,918	44,553	67,617	79,301	38,032
	Finance director	38,149	40,573	21,943	45,003	48,114	25,039	52,544	55,903	28,522	46,171	50,496	26,279
	Personnel director	35,755	37,609	21,107	45,290	46,511	24,679	54,625	58,852	29,426	45,786	49,347	25,681
BELGIUM:	Chief executive	54,607	58,543	26,510	68,934	75,685	32,131	86,768	102,445	41,558	72,655	84,018	34,875
	Finance director	37,052	39,391	19,324	46,011	49,782	23,012	56,879	61,606	27,316	48,382	52,219	24,139
	Personnel director	36,575	38,221	19,832	44,413	47,872	22,581	58,444	62,050	27,513	48,580	52,054	24,063
IRELAND:	Chief executive	39,104	42,231	24,072	45,332	51,776	28,477	58,532	66,004	34,982	48,845	54,477	29,418
	Personnel director	30,879	32,377	19,426	35,756	37,155	21,550	43,666	48,308	26,570	37,237	40,260	22,948
	Finance director	28,364	28,659	17,769	33,485	37,164	21,555	38,800	43,182	24,614	34,171	36,936	21,423
SWEDEN:	Chief executive	45,452	47,725	19,713	58,317	65,265	26,011	86,504	102,865	39,506	68,675	76,739	30,029
	Personnel director	34,783	35,226	15,316	41,812	44,375	18,650	54,778	57,714	23,420	44,913	47,044	19,431
	Finance director	31,934	32,892	14,539	38,815	41,812	17,573	46,543	52,117	21,149	40,441	43,290	18,194

TOP OPPORTUNITIES

SENIOR POSITIONS IN GENERAL MANAGEMENT

Chief Executive

Dublin

Industrial Credit Corporation plc

The Board of Industrial Credit Corporation plc (ICC) is seeking a new Chief Executive to succeed the present incumbent, who is retiring towards the end of this year.

ICC is a public limited company providing a broad range of financial services to the Irish business community; it has a record of consistent profitability, employs 350 people and its assets exceed IR£1 billion.

The role is to provide the creative leadership and direction necessary to spearhead the activities of the organisation in meeting its future challenges and opportunities.

The requirement is for a record of sustained achievement and excellence as a top level executive in the financial services sector.

Those interested should please write - in confidence - to H.W.J Flannery, MSL International, Newmount House, 22/24 Lr. Mount Street, Dublin 2 quoting reference 83549.

MSL International

CONSULTANTS IN SEARCH AND SELECTION

DIVISION PRESIDENT and MANAGING DIRECTOR (EUROPE)

A decentralized N.Y.S.E listed corporation is seeking an experienced Managing Director to run a $15,000,000/year European company manufacturing technical products for applications in the commercial vehicle industry. Markets are throughout the European Community, and includes the Soviet Union, the Eastern Bloc and also the Middle East.

This position requires either hands on European Managing Director experience or U.S. General Manager experience with direct European functional management responsibility. Candidates must speak English and either French or German and be willing to live in Europe.

If you are currently in or have had such a responsibility, can demonstrate a record of exceptional profit improvement and growth in a reasonably related business, and would like to investigate this opportunity further, please send your resume/curriculum vitae in confidence to:

Box A1501 Financial Times,
One Southwark Bridge, London SE1 9HL.

YORK EXECUTIVE APPOINTMENT

GROUP MANAGING DIRECTOR

The Scottish Heritable Trust PLC, an Industrial Holding Company with a turnover of approximately £100m, whose subsidiaries are principally involved in the distribution of oriental carpets, manufacture of entertainment fireworks, property and, in the USA, housebuilding and quarrying, requires an experienced Managing Director to work with and influence dedicated management teams. Reporting will be directly to the chairman and to the group main board of which the successful applicant will be a member.

This appointment will require a high level of business expertise and the drive and enthusiasm necessary to create a proactive culture within the subsidiary companies.

Applicants should be under 50 with at least five years' experience at Managing Director level, and an ability to conduct multi level negotiations.

The remuneration package will reflect the status of this appointment.

Please send your CV with covering letter in strict confidence to:-

Mr R Shephard, Director
The Scottish Heritable Trust PLC
Millbank House,
18-20 Skeldergate, York, YO1 1DH

To £45,000 plus benefits *Specialist Consumables* *South East*

Managing Director

Attractive role for successful, solutions orientated sales or marketing manager ready for general management accountability, to lead the development of a well established, fast growing and profitable plc subsidiary with dominant market share in chosen niches. Offers outstanding vehicle for international growth through product diversification and acquisition.

THE ROLE

- Reporting into the UK plc Board, accountable for the management, performance and growth of the subsidiary, operating with a high level of autonomy and developing a team of some 30 staff.
- Achieve planned expansion through personally leading the sales drive, developing key client relationships with major OEMs and the trade and identifying diversification opportunities.
- Fully responsible for guiding a very successful small company with established momentum through its next critical phase of growth.

THE QUALIFICATIONS

- Ideally a bright graduate with technical empathy, having an exceptional record of personal sales success in capital equipment, electronics, systems or a related field. Likely to be mid 30s. An internationalist with European languages being helpful.
- Will have managed and developed a team, have been used to budgetary responsibility and maintained close involvement with key clients. Particular success in identifying and broaching new markets important.
- Strong team building and motivational skills overlaid with structured business disciplines, proven commercial judgement and vision.

London 071-973 0889
Manchester 061-941 3818

Selector Europe
A Spencer Stuart Company

Please reply, enclosing full details to:
Selector Europe, Ref F4570511,
16 Connaught Place,
London, W2 2ED
071-973 0889

To £50,000 plus benefits *Division of UK plc* *West of London*

Sales and Marketing Director

New appointment for bright, well trained and commercially astute sales & marketing professional to join the Board of this c. £500m T/O Plc's house building division, poised to play an important part in the Group's expansion plans for the 90's. Prior knowledge of the sector is preferable, an ability to make a real impact on a broad remit and grow with the Company is essential.

THE ROLE

- Reporting to the Managing Director, responsible for establishing strong sales and marketing disciplines to optimise competitive advantage in a difficult market as a platform for future growth.
- Responsible for driving and achieving an agreed budget during a period of significant expansion. Develop an existing team of 16, implementing fresh initiatives in training, motivation, reporting and performance monitoring.
- Accountable for sales support, promotional campaigns and product packaging providing input to investment decisions, product and corporate development supported by rigorous market analysis.

THE QUALIFICATIONS

- Graduate calibre, aged 30-45 benefiting from a structured sales and marketing training in a blue chip environment, preferably house building.
- Excellent track record of success in sales, leading to early sales management and team performance accountability. Will have devised and implemented significant promotional campaigns, controlling the marketing mix.
- Initiative, energy and commercial acumen at a premium. Strong motivator and presenter who relishes accountability and can accommodate significant travel.

London 071-973 0889
Manchester 061-941 3818

Selector Europe
A Spencer Stuart Company

Please reply, enclosing full details to:
Selector Europe, Ref F4552511,
16 Connaught Place,
London, W2 2ED
071-973 0889

BANKING FINANCE & GENERAL

Executive Director

Leading Offshore Corporate Services and Trust Company

Isle of Man

Substantial Package

Our client provides a range of international corporate and trust consultancy and management services, based on the Isle of Man, and is a subsidiary of a quoted financial services group with a range of interests in the United Kingdom and Ireland. The organisation has an enviable record in developing an innovative range of products and services, utilising a multi disciplined team of executives whose experience spans the legal and accounting professions as well as merchant banking.

In addition to corporate and trust formation and management services, our client has successfully developed Public Company Registration work, international partnerships, exchange control planning and specialist consultancy services.

Due to recent growth and a desire to restructure, the need has arisen to strengthen the management team by recruiting an executive chairman who will be responsible for co-ordinating the existing executive team to further expand the already strong client and product base. The appointee will report directly to the Group Chief Executive of the holding company, and will liaise extensively with other senior executives within the group. There will be a need for a reasonable degree of travel.

The requirement is for a rounded and mature individual (aged 35+) who can motivate a highly skilled technical team and strengthen the company's position in its principal markets, which are in the United States, the United Kingdom, Continental Europe and the Far East. Due to the nature of the business the successful candidate is likely to be a sales and marketing orientated individual with an appropriate professional qualification and a good understanding of the offshore business.

The rewards include an attractive basic salary and benefits and the opportunity to develop a stimulating career within this leading company.

For further information in strict confidence contact Robert Walker on 071-287 6285 (evenings and weekends on 081-672 6259). Alternatively, forward a brief resumé to our London office quoting Ref: RW 1204.

WALKER HAMILL
Financial Recruitment Consultants

29-30 Kingly Street
London W1R 5LB

Tel: 071 287 6285
Fax: 071 287 6270

Nationwide
The Nation's Building Society

Head of Credit Control

A major role for a top credit professional

c£45,000 package. Northampton

Nationwide Anglia Building Society is Britain's second largest building society, and in recent years it has established a significant commercial lending capability. The current portfolio is in excess of £1 billion and includes advances to building companies, housing associations, and smaller companies throughout the U.K.

To ensure that the best credit standards and practices are observed, the Society wishes to strengthen its credit control procedures by the creation of the new position of Head of Credit Control, reporting to the General Manager (Finance). Key tasks will be to assess all major commercial credit proposals, to review and, where necessary, improve credit control procedures and systems, to manage and develop a specialist Credit Risk Unit, and to monitor and control the procedures relating to smaller advances throughout the Group.

As the successful candidate you will be a highly-experienced qualified banker with at least 10 years successful record in the assessment and control of loans to commercial clients, probably involving experience in the Advances Control function of a major UK bank. You will be fully conversant with the analytical, legal, procedural and documentation requirements of commercial lending, and will have a record of sound credit judgement. You will be skilled in presenting and arguing out your views at the highest levels.

An attractive salary will be supported by a major benefits package which will include a car and a concessionary mortgage. Our client will also consider a contractual arrangement which might be more attractive to a senior banker wishing to round off a banking career with a new challenge.

If you have the experience and qualities sought and wish to be considered for this appointment please write – in confidence – enclosing a CV and details of current remuneration to Douglas Austin, Ref: 7205, MSL International (UK) Limited, 32, Aybrook Street, London W1M 3JL.

MSL International

CONSULTANTS IN SEARCH AND SELECTION

EQUITY FUND MANAGEMENT

Our client, a private investment company, is seeking to expand its investment team by appointing two new people to run equity portfolios invested in UK, European and Far Eastern markets, where the emphasis will be on stock picking combined with the use of derivative instruments.

Candidates, probably in their early 30's, will need to demonstrate experience of international equity markets and be committed team players. An attractive salary will be offered commensurate with experience.

Please contact Martin Symon, Senior Consultant
Jonathan Wren & Co. Limited, Financial Recruitment Consultants
No. 1 New Street, London EC2M 4TP
Telephone 071-623 1266 Facsimile 071-626 5259

JONATHAN WREN EXECUTIVE

Challenging opportunities for financial consultants London based

Merrill Lynch is planning to expand its private client base in the UK, Scandinavia and Portugal. We are looking for exceptional financial consultants who are fluent speakers of either Portuguese or at least one Scandinavian language. It would be an advantage to have the relevant TSA and NASD registrations. Renumeration will be largely performance related.

Merrill Lynch employs some 700 financial consultants outside North America providing a wide range of brokerage and related services to high net worth private investors. With the development of the Single European Market and the globalisation of financial markets, exciting opportunities exist within the firm for high calibre financial consultants.

Please write with c.v. to:
The Manager, Merrill Lynch, Pierce, Fenner & Smith Limited, Time/Life Building, 153 New Bond Street, London W1 0RS.

Merrill Lynch
A tradition of trust.

ASLK-CGER Bank London Branch seeks

Senior Interest Rate Swap Trader

ASLK-CGER Bank London Branch seeks an experienced (2-4 year) Eurocurrency interest rate swap trader/originator to work with a highly motivated small team.

A mathematical bias and hands-on deal structuring/trading experience in European single and cross currency swaps in the 2-6 year maturity range are preferred.

Salary and benefits package negotiable according to experience.

Please send curriculum vitae to
G.P. Sloman, Assistant General Manager,
ASLK-CGER House, 22 Eastcheap,
LONDON EC3M 1EU

SENIOR FUND MANAGER

JAPANESE EQUITIES, CITY

We are retained by a major Institution to recruit a progressive, performance-orientated Fund Manager to take responsibility for the management of its substantial Japanese Equity Portfolios.

Candidates will have a disciplined investment approach, strong interpersonal skills and a high level of commitment. He/she will have extensive investment management experience and be able to demonstrate a successful track record of managing Japanese equities for a period of 3/5 years. The position carries a comprehensive package reflecting the importance of the role.

Those interested should send their curriculum vitae (including package details), or telephone in confidence, Richard A Fletcher, Managing Director, Fletcher Jones Ltd, 10 Charles II Street, St James, London SW1Y 4AA. Tel. (071) 839 9002, Fax. (071) 925 0502.

FLETCHER JONES LTD
EXECUTIVE RECRUITMENT

EUROPEAN-BASED SHIPYARD PROCUREMENT OFFICER
Intermaritime Group

Expanding private shipping company seeking accomplished procurement executive reporting to the Senior Shipping Executive.

The successful candidate will be an experienced negotiator able to source and supply high quality resources necessary to the shipping industry (marine equipment, steel, stainless steel, machinery, engines etc).

Although the position will be Geneva-based, the ideal candidate will be comfortable dealing in the Soviet Union and Eastern Europe.

Please fax resumes to Rolf Spillmann 010 41 22-738 4680

International Corporate Banking

Marketing Officer

c £32,000 plus excellent banking benefits — Midlands

While others contract, our client is committed to growing its large corporate customer base. A superb opportunity for a first class corporate banker to deal with the largest companies in the Midlands and North.

THE COMPANY
- Regional Office of large global banking group.
- Prime rated, well capitalised and well established in the UK.
- Excellent reputation for both corporate and structured financing.

THE POSITION
- Key member of small team covering the Midlands and North.
- Service existing core client base and develop new business in the large corporate market.
- Market lending, structured finance and treasury products.

QUALIFICATIONS
- At least five years corporate banking experience with excellent analytical skills, credit training and proven marketing ability.
- Well educated, preferably aged 28-38 and professionally qualified.
- Resourceful self-starter who thrives in small highly professional team

Please write, enclosing full cv, Ref BK2101
NBS, Bennetts Court, 6 Bennetts Hill, Birmingham, B2 5ST
021- 233 4656

N·B SELECTION LTD — FINANCIAL SERVICES RECRUITMENT
LONDON • SLOUGH • BIRMINGHAM • MANCHESTER • BRISTOL • GLASGOW • ABERDEEN

BUSINESS DEVELOPMENT

CORPORATE LENDING MANAGER

Herts based — **c £35,000 package + car**

A highly respected financial services Group is building on its success to date by opening a new branch operation in Hertfordshire to provide quality banking services.

As part of a small team, you will play an integral role in the development of new business in the Northern Home Counties. Responsible for marketing the full range of services provided by the Bank, you will be targetting small to medium sized corporates and substantial private investors. This broad based role will encompass the presentation of credit analyses and the detailed structuring of lending proposals.

Ideally, you will be ACIB qualified, aged 30-40, with a proven track record of obtaining new corporate business and have a thorough understanding of banking operations and procedures. Knowledge of and credibility with the local business community is essential.

You will enjoy the challenge of marketing, be self motivated and be seeking to progress your career further within a prestigious group.

If you are attracted by this outstanding opportunity to work outside London, please telephone or send your curriculum vitae in confidence to Richard Lyons.

INTERNATIONAL FINANCIAL RECRUITMENT CONSULTANTS

7 Birchin Lane, London EC3V 9BY — Tel: 071 895 8050 Fax: 071 626 2092

Devonshire Executive Ltd

A member of The Devonshire Group Plc

PROPERTY FUNDS

New £200m+ opportunity
Exciting growth company
Top Salary+mortgage, pension, car etc

Britannia Life has entered into an agreement to acquire Crusader Life assurance company which will add some £800m of investment funds including a £200m diversified property portfolio. Britannia Life's young investment team has one of the best track records in the industry and as part of their growth strategy has been looking for an opportunity to develop a property fund for some time.

To build up this portfolio and its income stream the company wishes to recruit an experienced property investment manager. This is an excellent opportunity for a skilled professional to establish a new team capable of converting a fairly random spread of properties into a strategically planned and growing large scale property fund.

Professionally qualified, you will have experience of development, funding and joint ventures probably gained as the 'number two' in an institutional team or possibly with a developer or the profession.

This is an exciting opportunity to take a lead role in developing a major business for a young and aggressively growing group. The remuneration package and more particularly the career prospects will attract the highest calibre of young professionals. Relocation to Scotland is available, if appropriate.

To apply, in confidence, please send a detailed CV including salary requirements to Douglas Kinnaird, PA Consulting Group, Number Two Blythswood Square, Glasgow G2 4AD, quoting Ref: 5126/FT.

Britannia Life

PA Consulting Group
Creating Business Advantage

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APPOINTMENTS ADVERTISING

appears every Wednesday & Thursday (UK) & Friday **(in the International Edition only.)**

NORWICH UNION FUND MANAGERS LIMITED

LONDON BASED BUSINESS DEVELOPMENT MANAGER CORPORATE PENSIONS

Norwich Union, still enjoying the continuous growth of the last few years, is a UK market leader and one of the top ten insurance and financial services groups in Europe.

Norwich Union Fund Managers Limited (NUFM), is a member of IMRO and manages funds in excess of £18 billion. Its Investment Marketing Team is now expanding operations in the corporate pensions market and invites applications from enthusiastic, self-motivated individuals who will operate from a newly-created London base.

Successful applicants will have established links with a wide selection of leading consulting actuaries and other pensions intermediaries and be able to demonstrate a proven track record of new business generation.

Key tasks include the promotion of NUFM's investment service at the very highest level. You will join a team which has overall responsibility for client presentations and developing investment marketing for the Group's corporate investment products.

Likely to be over 35, an independent and critical thinker, you must also be numerate and have highly developed written and verbal communication skills.

A fully competitive salary, backed by a first class benefits package including performance related bonus and comprehensive relocation assistance where appropriate, awaits the successful applicant.

We are an equal opportunities employer and happy to consider applications from registered disabled persons. If you measure up to the qualities highlighted in this advertisement, write now with full cv to:

Miss Deidre Galvin
Personnel Superintendent
Norwich Union Insurance Group
Surrey Street
Norwich
NR1 3NG

or ring Julie Piper on (0603) 683519 for an informal chat.

NORWICH UNION

CA 071-377 6488

Fixed Income Sales Germany
Various houses are seeking experienced sales people to cover Germany. Preferably fluent speaking German, but not essential. Good packages.

Fixed Income Sales
Uk and European houses are seeking experienced sales people to cover central banks. Good packages.

Structured Finance
Various Houses seek quality individuals with experience of Private Placements, LDC etc. Good packages.

Fixed Income Sales UK
Various security houses and banks seek experienced US$ to cover UK accounts. An established client base is essential. Good packages.

Fixed Income Sales
Several houses are seeking sales people covering Italy, Spain and Portugal. Essential to be fluent in the language of the country being covered. Good packages.

Fixed Income Sales France
Various quality houses seeking a French National to cover France. An established client base is essential. Good packages.

MTN Sales
Top quality houses are seeking to recruit MTN specialists. Knowledge of writing programmes would be an advantage. Good packages.

Treasury Sales to Europe
Two prime name houses are looking for experienced treasury sales people to cover Germany and/or Spain. Exposure to a broad range of treasury products, including FX options together with fluency in German and/or Spanish is a pre-requisite. Good package.

Euro Government Bond Traders
Several quality houses are seeking high calibre candidates trading either German or French Government Bonds. Knowledge of ECU's could be an advantage. Good packages.

Italian Equity Sales
Several houses seek experienced people for the above. Fluent Italian is a must. Salary negotiable.

All applications will be treated in the strictest confidence. For enquiries outside business hours please call 081-364 1833

CAMBRIDGE APPOINTMENTS
232 Shoreditch High Street, London E1 6PJ. Fax No. 071 377 0887

THE BANK OF BUTTERFIELD

CAREER OPPORTUNITIES IN BERMUDA

The Trust Department of The Bank of Butterfield, due to re-organization and growth, is seeking qualified applicants for the following vacancies:

Trust Manager

Duties /Responsibilities: Under the direction of the Senior Manager - Trust, the Manager will assume responsibility for a group of Trust Officers and Administrative Assistants who are charged with daily administration of a diversified portfolio of Trusts, Companies and Agency Accounts. The Manager's principle objectives will be to ensure that:-

- a high level of client service is achieved and maintained;
- the technical abilities of the staff are maximised;
- fee income is appropriate and charged on a timely basis;
- account reviews are up to date and effective.

Qualifications/Experience:
- A university degree or professional qualification in the Trust area.
- Extensive technical knowledge of offshore trust work and related aspects.
- At least ten years experience in Trust work.
- Ability to motivate and manage staff.

Trust Officer

Duties/Responsibilities: Under the direction of a Manager, or his/her delegate, the successful applicant will be responsible for administering trust and agency accounts, with diversified investment portfolios, according to the terms of the Trust Deeds or Agency Agreement; liaising with clients and their professional advisers; liaising with portfolio managers regarding investments; authorising/monitoring the purchase and sale of securities and other assets; assisting the Manager with the day-to-day administration of a Trust group which includes managing the productivity, performance and training of staff.

Qualifications/Experience: A minimum of 5 years Trust Administration experience *(North American/UK) is required.* ACIB, AIB or MTI trust designation preferable. Knowledge of international trust, worldwide investment and global settlement procedures a definite asset. Must demonstrate very good interpersonal skills.

We offer the successful candidates a tax free environment in one of the most beautiful resort areas in the world. Salary is payable in Bermuda Dollars at par with the US Dollar. Full hospital and medical insurance benefits and moving allowance.

Qualified applicants should write in complete confidence to: Mr Greg Melnyk, Manager, Personnel Administration, The Bank of N.T. Butterfield & Son Ltd., Personnel Department, P.O. Box HM 195, Hamilton HM AX, Bermuda or Fax: (809) 292 2073 before the closing date: 7 June 1991.

BARINGS

Merchant Banking

Baring Brothers & Co., Limited wishes to recruit an Executive to work on their expanding Scandinavian business as part of their successful London-based European team.

Suitable candidates will probably be university graduates, between 25 and 28 years old, possessing a high degree of numeracy and an ability to communicate clearly both orally and in writing. Experience and relevant qualifications will be an advantage.

Salary is negotiable according to experience and benefits will include mortgage subsidy, non-contributory pension scheme and BUPA membership.

Applicants should write, enclosing a curriculum vitae, to:

N. D. Brown, Director,
Baring Brothers & Co., Limited,
8 Bishopsgate, London EC2N 4AE.

ファンドマネージャー
(東京勤務)

シュローダーは英国に基盤を持つマーチャントバンクで、規模、国際性でも大手の一つといえます。投資顧問業務の分野でも世界の主要都市に事務所を置き、グローバルなネットワークを持つことにより成功をおさめています。

日本の投資顧問会社である㈱シュローダー・インベストメント・マネージメントは1986年に投資一任業務の免許を取得しました。現在東京での事業を順調に拡大し、5,300億円の資産に対して投資サービスを提供しています。又、常に新しい商品の開発も心掛けています。

シュローダーは若く、独創性があり意欲のある人材を求めています。証券分析の経験があり日本語・英語が堪能な方、又、外国の証券市場にも興味がある方を望みます。現在投資顧問業に従事している方だけでなく、証券会社で働いている方でも結構です。

給与待遇は当社規定によります。当初はロンドンでトレーニングを受けてから東京での勤務を予定しています。

応募される方は英文の履歴書を附けて下記迄お送り下さい。

Ms. Rachel Harry
Personnel Department
J. Henry Schroder Wagg & Co. Limited
120 Cheapside, London EC2V 6DS U.K.

Schroders

R.P MARTIN plc

Are looking for experienced off balance sheet and interest rate swaps brokers for a rapidly expanding area.

If you are looking for a new challenge then send your C.V. to: Mrs Rachel Brazier, Personnel Manger
RP Martin
4 Deans Court
London EC4V 5AA

APPOINTMENTS WANTED

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Sales Person with Political Consulting and Economic Development Background seeking new challenge.
Write:
P.O. Box 11028
St. Petersburg, FL 33733
USA

CHRISTIAN TECHNICAL/ PRODUCTION DIRECTOR

Manufacturing and service industry background seeks appointment as M.D. of small to medium size company. 43 years, - married - 2 children.
Please reply to Mr Barry Richardson, 17 Stable Lane, Seer Green, Bucks HP9 2YT or phone 049467 3407 after 7.00 pm.

EUROBOND/FUTURES BROKERS

A leading money broker has vacancies for junior Brokers and would like to interview applicants with Eurobond and futures broking experience.

Please write Box A1510, Financial Times, One Southwark Bridge, London SE1 9HL

BANKING FINANCE AND GENERAL APPOINTMENTS

The Polytechnic of Central London

Executive Assistant

LONDON W1. Salary c £25,000

The Top Management of this Higher Education Institution wishes to recruit a numerate man or woman to support the policy development, and the day-to-day administration, as their Executive Assistant, supported by *existing secretarial staff.*

Candidates must be graduates with excellent computer literate, written and spoken communication skills, and have several years administrative experience with a substantial employer.

An analytical approach to work, experience of researching and drafting reports and policy papers, and familiarity with computer data manipulation are essential for success in this new post. A self-starter who displays energy, confidence and diplomacy and wishes to add high-level experience to their career development is sought.

Please write, with your current CV, making clear how you meet each requirement to the Personnel Department, Polytechnic of Central London, 309 Regent Street, London W1R 8AL quoting reference number HMM/EA. Closing date is 6 June 1991.

PCL is an Equal Opportunities Employer.

PCL
THE POLYTECHNIC OF CENTRAL LONDON

UNADVERTISED VACANCIES? MAKING A CAREER MOVE?

Do you know how to? We do! We also know that most senior positions are not advertised. Our expertise can help you find them and solve your job search problem.

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Connaught · Mainland

CURRENCY OPTIONS TRADER
to 45K BASIC + M. SUB +

To move to a Major International Bank with an excellent presence and large share of the market takes certain qualities.

You must be active in the market, have at least two years trading experience *and be very enthusiastic in your approach to join this rapidly expanding team.*

For this you will be rewarded with a generous starting salary and full banking benefits including a mortgage subsidy, car, pension + BUPA.

For more details call David Dent on 071-613-2200 at Michael Williams Associates, 6 Punderson Gardens, London E2 - 9QH or Eves/W.Ends on 081-366-7248.

APPOINTMENTS WANTED

ANGLO-SAXON LAWYER
Geneva based

Swiss citizen, English speaking, fluent French and Hungarian, with many years of experience in multinational companies in Switzerland, seeks interesting position. Open to all proposals and free to travel, is also interested in opportunities related to Hungary or other (Eastern) European countries.

Please write to Box A1519, Financial Times, One Southwark Bridge, London SE1 9HL.

AlBank AlSaudi AlFransi

SAUDI JOINT STOCK COMPANY

WANTED
SECURITIES TRADING HEAD OF BACK OFFICE OPERATIONS

We are a leading Saudi Arabian joint venture bank with an important securities operation and mutual fund business. Operating mainly in the US equity markets, our activities in the principal European and Far *Eastern markets are also significant and growing rapidly.*

To ensure effective management and control of our expanding business, we need an experienced Head of Back Office Operations, who should be:

* Familar with International settlement procedures and the operation of custodial functions.
* Familiar and competent with computerized reporting systems for the preperation of client valuations.
* *Having a minimum five years relevant experience in an Investment Institution.*
* Knowledgeable in operating Personal Computers.

The successful candidate will manage a team of four staff based in Riyadh, Saudi Arabia and will report directly to the Head of Investment Banking.

Conditions of employment and salary package will be commensurate with the applicant's qualifications and experience.

CV's and experience documents in English should be submitted within 2 weeks and be addressed to:

MAIL: ALBANK ALSAUDI ALFRANSI
Corporate Human Resources Division
P.O. Box 56006
Riyadh 11554
Kingdom of Saudi Arabia
FAX: (966 1) 404-2222 Ext. 1454

Applications will be treated in strict confidence.

MEMBER RISK EXECUTIVE

Central London To £35k + banking benefits + car

Visa International is the world's leading payments systems organisation, providing services to over 21,000 financial institutions worldwide. Managed from the London office in Kensington, the Europe, Middle East and Africa Region is the fastest growing of the 5 regions.

Member Risk provides senior management with the support needed to protect the financial resources of the worldwide membership and the Visa Mark. Responsibilities include management of country risk issues as well as institutional solvency concerns. In addition, the Member Risk Executive represents the interests of the region's member institutions in the development of worldwide risk management procedures.

Applicants should possess a good first degree and ideally a higher qualification in either Business Administration or Economics. Experience of banking regulatory matters or similar risk management experience in inter-bank lending as well as country risk assessment skills are essential. Applicants must also possess the commercial awareness, credibility and personal skills to discuss complex issues at a senior level. Language skills in addition to English would be useful.

The position offers a highly visible role with attractive career growth. The benefits include car, mortgage subsidy, non-contributory pension scheme and private health care.

Please write with full details of career and current salary to Jenny Lever, Human Resources Executive, Visa International, P.O. Box 253, London, W8 5TE

VISA

HUNGARY
Commercial Legal Expert

Based in Budapest, you will make a significant contribution to the Active Privatisation Programme in which groups of State Owned Enterprises (SOEs) are privatised through the use of selected privatisation advisory firms.

Your specific role will be to advise on a wide range of legal issues arising from the preparation and implementation of the programme which involves the privatisation of 100 SOEs over the next 2 years. Areas of involvement will include: service contracts; mergers and acquisitions transactions; public flotations; employee share ownership plans; management/employee buyouts; property transactions. In addition, you will be expected to play an active part in the transfer of know how to local legal staff.

You should be a British Citizen with a proven record of legal expertise gained within a British corporate law firm. You must have experience in the fields outlined above as well as in the application of British corporate and commercial laws. Some knowledge of international corporate and commercial laws and, in particular, the Swiss laws will be an advantage.

A salary (UK taxable), commensurate with qualifications and experience will be payable for the 1 year appointment.

Closing date for receipt of completed applications is 5 June, 1991.

For further details and application form, please write to Mr T Finnigan, Ref No AH354/TF/FT, Abercrombie House, Eaglesham Road, East Kilbride, Glasgow G75 8EA, or telephone 0355 843538.

ODA is committed to a policy of equal opportunities and applications for this post are sought from both men and women.

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Qualifications
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Please write (closing date May 31, 1991) enclosing a curriculum vitae to:

Sheila North (Ref. FT)
Recruiting and Placement Administrator
The LEK Partnership
The Adelphi Building, 1-11 John Adam Street, LONDON WC2N 6BW

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The successful applicant will have an ACA and/or MBA qualification and will have an outstanding record of achievement gained within a multinational environment.

Experience of Financial Planning for International Joint Ventures will be a distinct advantage as well as a knowledge and understanding of the importance of the Tax and Treasury functions in structuring International contracts.

Strong financial skills, entrepreneurial flair and outstanding communication skills are key attributes for the position. A European language would also be an advantage as a substantial amount of work will be carried out in Europe.

Career prospects within the Group will be limited only by personal ability.

If you feel you meet the exacting standards that this organisation has set please write to Simon Hewitt, enclosing a detailed CV, at the address below.

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Working alone and reporting to the Audit Committee comprised of Directors of the Bank you will be required to ensure that all departments conform to established procedures and that systems and controls remain effective for the scale of operations. As required you will liaise with the Bank's external auditors and also monitor compliance with Bank of England regulations.

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Hours of work can be flexible and salary will be negotiable at a level reflecting the importance attached to this position. It will be supported by the usual banking benefits.

Interested candidates should send a detailed C.V. to Box A1520, Financial Times, One Southwark Bridge, London SE1 9HL

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Group Accountant

c.£40,000 + Car Central London

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Ideally you will be a graduate chartered accountant with experience gained in an industrial manufacturing environment. In addition to a thorough grounding in management and financial accounting, you will be familiar with internal audit and consultancy, tax and treasury matters. Computer literacy is vital. Personal attributes should include enthusiasm, energy, attention to detail, and, most importantly, the ability to work independently.

Please write quoting reference MCS/8908 enclosing full career details and current salary to:
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Executive Selection Division
Price Waterhouse
Management Consultants
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ACCOUNTANCY COLUMN

US rules may be tightened after thrifts' failures

By Pratap Chatterjee in Berkeley, California, and David Waller in London

THE ROLE that loose accounting rules played in the rise and fall of the US savings-and-loans, or thrift, industry, has been spelt out by Mr Richard Breeden, chairman of the US Securities & Exchange Commission. The collapse of the industry is expected to cost US federal government insurers about $500bn (£289bn).

"Misuse of accounting standards played an extremely large and, in some ways, pivotal role in the reckless growth of the thrift industry, as well as in concealing the depth of its problems," Mr Breeden said.

"If misused, accounting principles can conceal insolvency from creditors, investors and regulators," he continued. "In some cases ... the accounting rules may facilitate fraud on investors. In other cases accounting principles may be used to justify postponing treatment or resolution of problems in firms at the very time that they may be expanding through the use of publicly-guaranteed funds."

Mr Breeden, who was speaking last September to the US Senate's banking, housing and urban affairs committee, then described in chilling detail how accounting rules helped create an illusion of solvency and prosperity which was used to justify "not only expansion, but also dividends, enormous salaries, acquisitions and many other expenditures that drained cash from failing firms".

Since Mr Breeden made his speech, some large banks in the north-east of the US have collapsed, adding to pressures for a radical overhaul of accounting in the banking sector.

In February this year, the Financial Accounting Standards Board (FASB) decided to study the possibility of allowing banks to set up separate reserves for loans in temporary difficulties. FASB is also working on standards which will require banks to account for debt securities at cost or market values, whichever is the lower, a system known as Locom. Similar standards are being considered for all other forms of financial instrument.

The central objective of regulators is not simply to eliminate some of the more extreme accounting abuses found in the savings-and-loans industry. It is, to quote Mr Breeden, to help regulators, investors and other users of accounts "to make a much more meaningful assessment of the real economic value and risk exposures of a financial institution".

Under considerable pressure from the SEC, the US standard-setters are formulating proposals which will require financial institutions to account for securities and investments at Locom. Stocks and bonds held for investment purposes are now valued at cost, irrespective of their value in the market.

According to the regulators, the change would make the accounts of financial institutions more meaningful than they are now – and eliminate "cherry picking". This is a form of accounting arbitrage, much practised by savings-and-loans groups, where financial institutions take advantage of the accounting differences between trading and investment portfolios to maximise profits and mask losses.

The technique was simply to shuffle securities between the two different types of accounts when their market values changed. "The continued use of historical cost accounting for investment securities has enabled institutions to 'manage' the timing of gains and losses," Mr Breeden said in his speech. "'Gains trading', i.e. selling profitable positions and holding losing positions ... had the effect of inflating the thrift's apparent short-term profitability whilst inevitably leading to declines in future yields."

Banks are reluctant to identify bad loans because doing so can affect their income statements adversely

To remedy this, the accounting standards arm of the American Institute of Certified Public Accountants has suggested that all debt securities will have to be accounted for at Locom unless it is possible to prove that the investment is being held to maturity.

There have been two principal objections to this. First, some institutions believe the rules will interfere with normal investment decisions, forcing them to divest themselves of debt securities less likely to show short-term gains. Second, the institutions say the rules apply only to assets and not to liabilities. That objection may be met in the long term as FASB is already working on a project to set standards for all sorts of financial instruments. In time, this is likely to tackle both sides of the balance sheet – but not until Locom has become a formal requirement.

FASB is now working on defining the circumstances when loans can be described as "temporarily impaired", a new classification which would cover those loans where original values have fallen because the debtor cannot service them fully. The regulators say this move will make it easier to assess the real financial health of an institution.

At present, if a bank declares a loan bad, it must be written down fully against reserves. This discourages banks from declaring the true extent of their problems. According to Mr Paul Rohan, project manager at FASB, the board would probably allow banks to set up a special smaller reserve for impaired loans rather than having to write them off completely. Banks say that they would be less reluctant to identify bad loans if doing so did not have an adverse effect on their income statements.

For example: a bank lends a developer $100 for a property under an agreement by which the developer pays the bank $16 a year for 10 years. Normally, the bank would take $10 off the original principal and book $6 as income, but because of the recession, the developer ends up paying only $10 for a particular year.

Under present accounting standards, the bank is expected to categorise the loan as "non-accruing" and use all payments to pay off the principal, so that none of the $10 payment shows up in the income statement.

Bankers want to change this by splitting the loan in the accounts into two parts – a performing loan and a temporarily non-performing loan. The advantage of this is that there would be less of a blot on the bank's income statement.

Analysts are concerned that banks will be obliged to cut back their lending and investing if they are hobbled by very conservative accounting. Indeed, some argue that conservative accounting militates against private-sector interest in buying what is left of the failed savings-and-loans institutions.

For example, acquired intangibles do not now count towards the Bank of International Settlements minimum capital requirements of 8 per cent of assets. In other words, if a bank buys a $100,000 credit card portfolio at a premium – based on its expected cashflow – no matter how sound the cashflow, it cannot include this premium as part of its 8 per cent minimum capital.

The Resolution Trust Corporation, the federal body that is required to salvage failed savings-and-loans institutions, says this deters banks which would otherwise buy savings-and-loans portfolios.

FASB does have a project to look at measuring identifiable intangibles, but it is not expecting to publish recommendations on this issue until the end of the year.

The regulators and standards-setters hope that the package of measures will make it easier to spot the next financial crisis at the earliest possible time – not when it is already too late.

ACCOUNTANCY APPOINTMENTS

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Finance Manager *c. £35,000 + Car + Benefits*

Reporting directly to the Financial Controller, the Finance Manager will head a team responsible for producing financial and statistical data on business performance. You will supervise all monthly management reporting encompassing issues such as sales, cash flow, profitability of retail units within the Company and Taxation. You must possess a strong systems ability combined with a talent for highlighting issues which are vital to senior executives throughout the organisation.

This position will appeal to a qualified accountant, aged 25-30, with a minimum of two years' PQE gained within the reporting function of a major Plc. You will have a mature commercial approach and display the highest level of commitment in your career to date with a desire to form part of a highly motivated team. Reference MH839.

Assistant Finance Manager *c. £23,000 + Car + Benefits*

Reporting to the Finance Manager, you will form part of a team addressing all monthly management reporting issues and as a result will be expected to have a strong working relationship with all members of Finance and other departments throughout the company. Contributing to the development of a highly sophisticated computerised system, you will also be responsible for managing day to day reporting issues within a transaction orientated business along with the handling of special projects.

This position is likely to attract a finalist CACA/CIMA or newly qualified accountant, aged 23-28, with at least two years' experience of a major Group. You must possess good commercial judgement combined with strong technical skills and have the ability to liaise at all levels of operational management. Reference MH840.

Business Development Accountant *c.£35,000+Car+Benefits*

Reporting directly to the Financial Controller, the Business Development Accountant will form part of a team to strengthen forecasting, planning and analysis within Finance, developing the role into a function providing commercially orientated advice in relation to future business direction. You will have the ability to identify and develop systems-based solutions to provide superior levels of management information, allowing time to address commercial issues facing the Company.

The successful candidate will be a qualified accountant aged 25-30 with a strong academic background and a minimum of two years' PQE gained within a Blue Chip environment. Other essential attributes will include first class interpersonal skills, strong motivational qualities and a highly inquiring and analytical mind. Reference MH838.

The company is committed to offering career progression at the earliest opportunity and has a pro-active approach to staff development. Individuals who consistently perform well and strive for excellence can expect opportunities to arise within both this division and other group companies. To discuss these outstanding opportunities in greater depth, please contact Mark Rowley on 0483 303300 (daytime) or Michael Herst 081-502 1247 (evenings). Alternatively, write to them at the address below, enclosing a full curriculum vitae, quoting the appropriate reference number.

HARRISON WILLIS

10 Quarry Street, Guildford, Surrey GU1 3UY. Tel: 0483 303300

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Responsibilities will include the preparation and critical review of the Group's monthly management accounts, profit and working capital forecasts, and the Group budget; technical issues; policies and procedures; and support for cash and currency management. In addition the Group Accounting Manager will be expected to contribute to the consolidation of the annual published statutory accounts. The position reports to the Group Financial Controller.

Applicants should be qualified accountants with excellent commercial experience gained either at the centre of a medium-sized Group or in a relevant operating company role. A hands-on flexible approach is required, together with sound personal organisation, and the ability to get results from a small team and from overseas finance staff. Strong technical accounting skills and experience of PC spreadsheets are essential.

Please apply in confidence quoting Ref. L478 to:

Brian H Mason
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1 Lancaster Place, Strand
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Tel: 071-240 7805

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Selection & Search

Group Financial Controller

Milton Keynes £ negotiable

A high profile appointment working in the Group Headquarters of a leading electronics engineering company with interests in UK, Europe and the USA. The Group is highly successful and has experienced significant growth over the last 10 years.

Responsibilities encompass management of the Group accounting function, liaison with Company Financial Managers, consolidated period management and financial accounts and budgets.

The ideal candidate will be young, fully qualified and with management and computer experience. They will respond to the challenges presented by a progressive, dynamic and growing organisation whilst producing results.

Senior Financial Accountant

Due to the continued growth of this Group, they are also looking to strengthen their existing Head Office accounts team by appointing a Senior Financial Accountant to undertake a variety of tasks. Excellent career prospects.

Applicants should be young, dynamic and recently qualified.

Please write, enclosing your current CV stating your present salary to Leslie Simpson, Chamberlains Personnel Services Limited, Forest House, Sherwood Drive, Bletchley, Milton Keynes MK3 6ES. Telephone (0908) 366766.

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FINANCIAL TIMES EUROPE'S BUSINESS NEWSPAPER

INVITE YOU TO A BUSINESS BREAKFAST

THE DEMOGRAPHIC REVOLUTION

The implications of a shrinking workforce for recruitment policy

ON TUESDAY 18TH JUNE 1991
AT THE SAVOY HOTEL, STRAND, LONDON WC2
8.30AM TO 9.30AM

The talk will be given by Jane McLoughlin, former Business Editor and Woman's Editor of The Guardian and author of 'The Demographic Revolution' (Faber 1991).

By 1994 there will be 1.2 million fewer school leavers entering the workforce than in 1986.

The talk will address the implications of this shortfall for employers and will cover:

- Changes in Recruitment Policy and Standards.
- How the workplace and traditional work systems must adapt.
- *Implications for employers' spending and investment.*
- How the demographic revolution will alter people's expectations from work.
- The effect upon Financial Institutions.

Jane McLoughlin has worked on the staff of the Daily Mirror, Daily Telegraph, Daily Mail and Observer and was both Business Editor and Women's Editor of the Guardian. Now a freelance journalist and author, Jane is a regular contributor to the Financial Times and Evening Standard City Pages. Her books include 'Asias's New Industrial World' (as co-author), 'Women and Employment' and most *recently 'The Demographic Revolution'.*

Please note that places at the breakfast are strictly limited

If you wish to attend the Business Breakfast, please write to Rachelle Nelson at Robert Half, Freepost, Walter House, Bedford Street, 418 The Strand, London WC2R OBR. (Telephone: 071-836 3545).

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Für weitere Informationen steht Ihnen Herr Eduard Hoeberichts unter Telefon (0031) 40 435 115 oder Herr Terry Benson unter Telefon (0044) 71 831 2000 gerne zur Verfügung. Auch wenn Sie im Moment nicht an einen Wechsel denken sollten Sie mit ihnen sprechen.

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Please send full personal and career details, including daytime telephone number and current remuneration level, in confidence to Chris Haworth, Coopers & Lybrand Deloitte Executive Resourcing Ltd, 76 Shoe Lane, London EC4A 3JB, quoting reference CH829 on both envelope and letter.

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The need is for a qualified Accountant, ideally aged early 40's, who has experience of internal audit gained with a 'blue-chip' multi-national company. Essential personal attributes are proven leadership skills, sound commercial judgement and the ability to act independently when necessary. A second European language would be an asset as our international network continues to grow.

The remuneration package of around £50,000p.a. reflects the importance we place on this position which is based at our office in Central London. A relocation package is available if necessary.

Please write with a comprehensive CV to: Paula Bates, 3i plc, 91 Waterloo Road, London SE1 8XP. Tel: 071-928 3131 ext. 2772.

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Humberside

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Good interpersonal and communication skills are prerequisites for this position as you will be part of a small but strong management team with complete autonomy for running the business

Your inherent commercial skills will be augmented by experience in MIS and in facilitating systems changes to reflect and encourage increased quality

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Please reply in confidence, enclosing a full CV and quoting reference L/115 to David Adrian

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As part of the company succession planning programme, it is envisaged that you should be capable of fulfilling the Controller's position in the future.

Candidates should apply, with full career and salary details, to R M Bruce, Mercuri Urval Ltd, 1-4 Portland Square, Bristol, BS2 8RR, quoting reference 179/91.

Mercuri Urval

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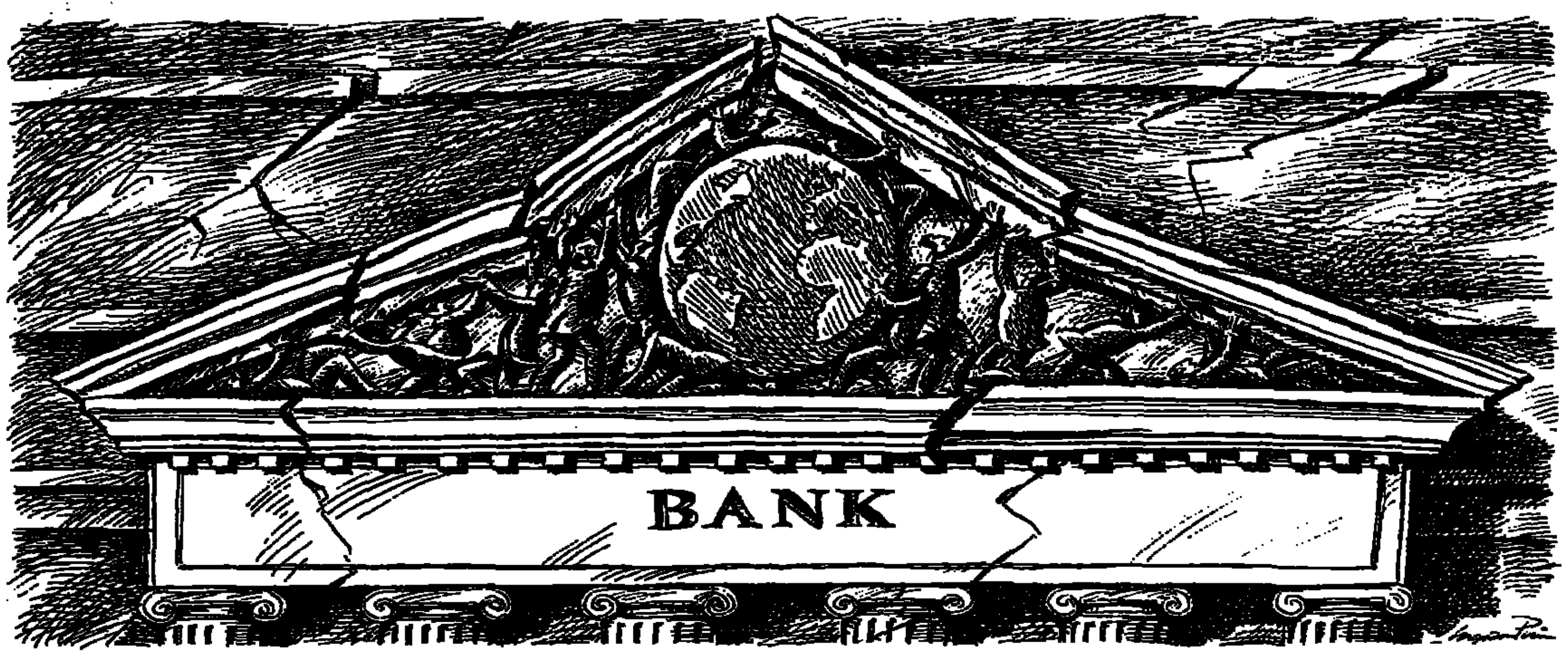
FINANCIAL TIMES SURVEY

INTERNATIONAL BANKING

SECTION III — Friday May 24 1991

Banks collapsing in the US, recession in the UK, corporate failures in Australia, the stresses and strains of a system under pressure — it is hard to recall a time when so much seemed to be going wrong at once. David Lascelles, Banking Editor, analyses the upheaval



A bruised and battered look

THE news from the banking front has been so unremittingly bad in recent months that even hardened bankers are having trouble keeping a sense of proportion.

Whether it be banks collapsing in the US, recession in the UK, corporate failures in Australia, or simply the stresses and strains of a system under pressure, it is hard to recall a time when so much seemed to be going wrong at once.

Top banks like Barclays and the Industrial Bank of Japan, the world's largest, lost their triple-A credit ratings after reporting worsening results. In Germany, the big banks had to hold their dividends as east European loan losses ate into profits. In the US, money centre banks like Citicorp and Chase Manhattan have been forced to make severe cuts to get their balance sheets back into shape. Even Japanese banks, only two years ago the most feared predators on the banking block, wear a subdued look.

The reasons are not hard to find. The Gulf war aggravated what were already very difficult conditions for banks, particularly in the English-speaking world. Loan losses in the US are at record levels, notably in the north-east real estate market, and could be heading for similar heights in the UK. Although the Japanese economy has been reasonably strong, the collapse of the stock market and the fragility of the property market have put heavy strain on banks there.

But people have also been looking for more deep-rooted causes. Many have blamed over-strict rules which prevent banks from evolving with their markets, and force them instead to chase after ever riskier profits. This would explain bankers' over-exposure to the property market, despite the lessons of history about its dangers.

Some have also pointed the finger at the burdensome capital rules which international supervisors are trying to introduce. Although these are supposed to strengthen the banking system, they are also choking the banks' ability to lend.

But central bankers are resisting calls to ease the rules. Last week, Mr Robin Leigh-Pemberton, the governor of the Bank of England, said such action "would be a profound mistake". If banks were being more selective in their lending, this marked a welcome return to prudence.

Despite all the doom and gloom, however, there are chinks of light. Stock markets around the world seem much more cheerful about the outlook. Bank shares have been on the rebound for much of this year, and many of them have soared to record highs.

To an extent, this reflects the market's view that banks must have hit bottom even if they are not yet obviously on the rebound. One reason is that bankers themselves are plainly making fresh efforts to get their institutions back to health.

"We're going through a very important transition," says Mr John Reed, the chairman of Citicorp, the largest bank in the US. "We're aiming to change the culture of the place."

Mr Reed has embarked on a major programme of cost-cutting and capital raising after a dividend cut and two successive years in which loan loss provisions exceeded $2.5bn.

Another reason is that the economics of the banking market have begun to show their first improvement in over a decade. The retreat of dozens of banks from the aggressive lending tactics which they adopted in the heady 1980s has brought about a marked fall in competition. Banking margins are widening as a result, particularly over the last six months.

Analysts at Kleinwort Benson Securities, for example, calculate that an improvement of only 0.25 percentage points in margins would add £298m ($515m) to the profits of Barclays Bank this year. This will be a lasting trend, predicts Mr Bruce Pattullo, the chief executive of the Bank of Scotland, who moved smartly to make a £200m rights issue and position his bank to expand its market share.

A further reason is that regulators are attempting to refashion the rule book to make life more tolerable for banks, though their efforts are being hampered by slow-moving legislators and inability to agree among themselves.

Mr Nicholas Brady, the US Treasury Secretary, presented his proposals to reform US banking law in February with the words: "It's a bleak picture that demands action – prompt action – to correct it." If he succeeds, he will bring about the first major change in the US regulatory environment in over half a century. He wants to give banks greater freedom to engage in new activities like insurance and investment, and break down barriers between individual states.

However, early indications are not encouraging. Congress may have neither the time nor the stamina for a mammoth banking bill, and may focus its efforts instead on the more simple but urgent task of rebuilding the decimated deposit insurance system. This could also slow down similar reforms in Japan.

The implications of regulatory inaction in Washington could be severe for US banks because the European Community, in the meantime, is pressing ahead with its plans for a single market, based on a liberal concept of what banks should be allowed to do.

Sir Leon Brittan, the commissioner responsible for financial services in Brussels, says he is confident that the main banking measures will all be in place by the end-1992 deadline.

A major question arising out of the upheavals of the recent past is the extent to which it will leave a lasting impact on the banking industry. The answer will not become clear until the dust settles. But already new shapes are discernible.

The most significant may be a reversal of the trends of the 1980s which saw banks expanding internationally and branching out into new markets, particularly in the investment banking area.

The retrenchment that has been forced on big banks by harder times has led to a marked retreat from locationslike Europe by the Americans and the Japanese. But foreign banks with big operations in the US have also suffered, notably the UK's NatWest which lost $352m there last year.

"Banks are heading home," says Mr Piet-Jochen Etzel, a member of the board of Dresdner Bank. "It is very difficult to expand successfully abroad."

But the movement is not only a geographical retreat. Many large banks are also going back to basics by refocusing on their traditional domestic operations, and on markets where their long standing gives them natural advantages.

In a recent study of the prospects for US banking, Mr Lowell Bryan, the head of McKinsey's North American banking practice, argued that many banks should return to performing only core banking activities, where they would be strictly regulated. His work suggested they would be more profitable than today's commercial banks.

Banking regulators, too, are focusing on distinctly unglamorous areas: the clearing systems that underpin the financial markets and go unnoticed until they fail, when they cause havoc. Several initiatives are now underway to strengthen systems and encourage new developments like netting out payments between banks to reduce the sums of money that pass between them and, hopefully, the scope for error.

Banking wears a bruised and battered look as it advances into the new decade. Stock phrases of the 1980s such as innovation and globalisation have become dirty words. Nowadays bankers talk of "getting back to basics", and "building on strengths" – a sure sign that the earlier boldness had gone.

Confidence will doubtless return as the economic picture improves, but that could still be some way off.

IN THIS SURVEY

■ THE WORLD ECONOMY: a difficult decade lies ahead

■ INTERNATIONAL INSTITUTIONS: focus shifts to the private sector ..Page 2

■ CAPITAL FLOWS: is the 'credit crunch' hard fact or financial fiction?

■ REGULATION: the reformers are struggling to keep pace with changes in the market ....Page 3

■ INVESTMENT BANKING: competition gets tougher

■ RETAIL BANKING: once a money-spinner, now a cut-throat business Page 4

■ 1992: the single market remains a strong force shaping European banking strategy

■ THE LENDING MARKET: the banks have regained the upper hand ....Page 6

Midland's McMahon: questions about the future

■ INSURANCE: banks will sell more and more policies to customers during the 1990s ....Page 8

PROFILES:

The UK	Page 4
The US	Page 5
Japan	Page 5
Germany	Page 7
Australia	Page 7
France	Page 7
Canada	Page 8

Related Surveys ...Page 8

Editorial Production: Andrew Slade

Peter Norman assesses the condition of the global economy

A difficult decade ahead

THE 1990s are shaping up to be a difficult decade for the world economy and for international banks.

The US, Britain, Canada and Australia are in recession. Growth in Japan and continental Europe is slowing.

After the euphoria that surrounded the end of the Cold War, the former Communist countries of eastern Europe are experiencing a difficult transition to the free market economy. The Soviet Union is in economic crisis, with serious commentators such as Mr Zbigniew Brzezinski, the former US national security adviser, drawing parallels between its present plight and that of the US in the great depression of the 1930s.

The state of the developing world is a cause for continuing concern. There are success stories, such as the fast growing Asian economies of Hong Kong, South Korea, Singapore and Thailand, where economic conditions are increasingly difficult to distinguish from those in some industrialised nations. Some Latin American countries, notably Mexico, are pulling free of the debt crisis that has hamstrung economic development for nearly a decade.

But we need only look at our television screens to see that many countries in Africa are incapable even of feeding their own people. Elsewhere, nations rich in natural resources, of which Iraq is only the most egregious example, lack the sound, democratically responsible governance that is increasingly recognised as a key pre-requisite for economic growth and development.

However, it is perhaps too easy to stress the gloomy aspects of the global economy. The liberation of Kuwait lifted an important cloud from the economic horizon. Crude oil prices, after surging upwards in the wake of Iraq's invasion of its small neighbour, have fallen back to pre-invasion levels of around $20 a barrel. Inflation, which had again reared its ugly head at the end of the 1980s, now appears past its peak, thanks to the implementation of tough monetary policies by central banks in the leading industrial countries. World stock markets have risen impressively since the beginning of this year, helping to boost confidence.

THE WORLD ECONOMIC OUTLOOK (annual changes in per cent)	1989	1990	1991	1992
World output	3.3	2.1	1.2	2.9
Industrial countries	3.3	2.5	1.3	2.8
US	2.5	1.0	0.2	2.7
Japan	4.7	5.6	3.6	3.9
Germany (West)	3.8	4.5	2.8	1.9
Developing countries	3.1	0.6	0.8	3.4
Africa	3.3	1.9	2.0	4.8
Asia	5.5	5.3	5.0	5.2
Europe*	1.8	-2.9	-3.5	-1.7
Middle East	3.2	-1.5	-3.3	8.5
Western Hemisphere	1.5	-1.0	1.0	3.3
World Trade Volume	7.1	3.9	2.4	5.5
Commodity prices				
Oil	21.5	28.3	-22.1	4.0
Non-fuel	-0.3	-7.9	-2.7	3.2
Consumer prices				
Industrial countries	4.4	4.9	4.6	3.9
Developing countries	79.5	90.5	40.9	18.0

*Bulgaria, Cyprus, Czechoslovakia, Hungary, Malta, Poland, Romania, Turkey, USSR and Yugoslavia

Source: IMF World Economic Outlook, April 1991

Despite slowing, and in some cases negative, growth in the big industrialised nations, the world should escape a global recession. True, the International Monetary Fund expects world economic growth to slow to around 1.25 per cent this year from 2 per cent in 1990 and 3.25 per cent in 1989. But, in its most recent Economic Outlook, the IMF says growth could rebound to 3 per cent next year, helped by a recovery in the growth of world trade to perhaps 5.5 per cent from 2.5 per cent expected for this year.

There are risks to this forecast – particularly on the trade front, where the stalled Uruguay Round of negotiations to liberalise world trade are a potent reminder of the dangers of protectionism. But the world has also been lucky because of the sharply different cyclical positions which currently characterise the economies of the big industrialised countries.

It is not unreasonable to hope that the US, which was one of the first countries to enter recession, may soon be on the path of recovery. The Federal Reserve has pursued a policy of aggressively lowering interest rates in recent months, bringing the rate for federal funds – the important interest rate at which banks lend among themselves – down to around 5.75 per cent.

Although policy in Britain is now subject to the constraints of the exchange rate mechanism of the European Monetary System, the government has presided over a substantial interest rate cut in recent months. Economic surveys suggest that the bottom of the UK recession may be in sight, although rising unemployment will be unavoidable for many months to come.

In the meantime, growth in Japan, although slowing, is expected to remain strong by any standards other than those set by Japan's spectacular economic performance in the past.

In Germany, conditions following union are more complex. Western Germany chalked up an impressive 4.5 per cent growth rate last year as its factories boosted production to meet demand from the inhabitants of the former East Germany. Although the stimulus from union remains strong, the economic problems of the new Länder are proving far more intractable than imagined. The German economy is looking increasingly lopsided. Because of the present fixity of exchange rates in the ERM, the tight monetary policy that the Bundesbank is pursuing to control inflationary pressures in the western part of the country is threatening to choke growth in France, Italy, Spain and other European Community countries.

The global economic picture is therefore mixed. And the problems of the banks and other financial intermediaries in many countries will probably ensure that recovery will be slower than it might have otherwise have been.

The global economic upswing of the 1980s owed much to a wave of deregulation in the financial centres of the English-speaking world and, in turn, gave that process of deregulation added impetus. With the benefit of hindsight, excesses developed which now impair economic growth.

Deregulation encouraged households and businesses in the US, Britain and Australia to take on ever increasing volumes of debt at variable interest rates. The tough monetary action taken to tame inflation not only exposed weaknesses among the borrowers. Financial fragility has extended to substantial parts of the banking industry, particularly in the US.

This financial fragility coincides with a growing need for capital in the world. Economic restructuring in eastern Europe, the cost of German unification, post-war reconstruction in the Middle East and the continuing demand for funds to develop the Third World sit uneasily alongside widespread insolvencies in the US thrift industry and the financial problems of some commercial banks in the US and elsewhere.

Until international banking gains more strength and confidence, free flowing funds will not be available from the banking system to finance all the needs of the global economy in the 1990s. Only top quality borrowers will attract finance and the strong, whether they be countries or companies, will have an even bigger advantage over the weak.

The words "credit crunch" have doubtless been overused to describe present conditions. But there is no mistaking the determination of nearly all governments to encourage domestic saving to make their economies less dependent on sometimes capricious capital flows. Although slowdowns and recessions invariably have been followed by growth, financial constraints alone argue against there being a surge of global economic activity in the years ahead.

"BETWEEN 1975 and 1980, the World Bank group achieved net transfers of $9 (in 1991 prices) per person in the developing world. Over the next five years, it is expected that net transfers will represent just over $2 per person in the developing world. For a large number of countries, the net flow of money will actually be into the Bank" – Larry Summers, Chief Economist, the World Bank, April 1991.

"The IMF estimates that the overall financing requirements of the five countries (the former communist bloc countries of central and eastern Europe) might come to $23bn in 1991. Of this total, the Fund expected to disburse up to $5bn in various programmes and facilities during the year... (However) even with the agreed increase in quota, the Fund was simply not in a position to go on providing resources at the rate envisaged for 1991" – Report to ministers of the Group of 10 industrialised countries, April 1991.

Tony Andrews

Jacques Attali chairs the first board meeting of the EBRD

The international institutions

Focus on the private sector

DEVELOPING countries are more dependent than ever on the resources of the multilateral financial institutions. Yet the institutions are severely constrained in their ability to meet this enlarged task.

The reason for this dependence is the drying up of alternative sources of finance for most developing countries. The legacy of the 1980s debt crisis, overlaid by the severe capital constraints on international banks, means that commercial credit is available only to a minority of countries, or for limited purposes.

Prospects for government-to-government credits have also weakened after the losses – implicit or explicit – taken on the loans governments made in the 1970s and 1980s. Japan, a provider of significant sums in bilateral assistance over the last 10 years, has warned that where it is forced to write down debts – as in the recent case of Poland – new credit will not be available.

Despite the recent capital increases of the International Monetary Fund, World Bank and Inter-American Development Bank (IADB), the ability of the international financial institutions (IFIs) to fill the gap is limited.

There is no desire among the IMF's masters to change the essentially short-term "revolving" nature of IMF credit packages. The World Bank is so heavily lent to some countries – such as Brazil and China – that they are almost inevitably going to pay more to the Bank in coming years than it disburses to them. In Latin America, the IADB will be the only institution making net transfers to many countries. Even if, as the institutions claim, the demands for resources from east Europe have not deprived other developing countries of funds from the IFIs, these demands have reinforced this trend elsewhere.

In the medium term, this drying up of debt-creating financial flows to developing countries may be no bad thing. In the short-term, it means continued outflows of capital from developing countries, with all that implies for social welfare.

As a result, it is not surprising to see IFIs such as the World Bank emphasising the help it gives to developing countries in non-financial forms – for example, advice and technical assistance.

There is also a renewed focus on non-debt creating financial flows – in other words equity investment, either through portfolio investment in developing countries or through foreign direct investment. It is against this background that many countries, encouraged by the IFIs, have been reforming investment regimes and making their financial climates more hospitable to investors, both domestic and foreign.

This has been accompanied by pressure from leading shareholders, particularly from the US, for a more private sector-oriented focus by the IFIs. The US ultimately envisages the World Bank – where a tough-minded commercial banker, Mr Lewis Preston, is soon to take over – lending directly to private companies in the third world. A similar

Sixty per cent of the EBRD's lending will be devoted to the commercial sector

debate is now under way at the IADB, where borrowing countries such as Chile say rules which prevent lending to the private sector act as a disincentive to privatisation.

US pressure has also resulted in a strong private sector focus in the newest IFI: the London-based European Bank for Reconstruction and Development, created to help the transformation to market economies and democracy in eastern Europe. Sixty per cent of its lending will be devoted to the commercial sector and 40 per cent to infrastructure.

This focus on the private sector is controversial, and many believe it to be too narrow. After years of neglect, infrastructure in many developing countries is deteriorating rapidly. Without it, the private sector would not be able to function efficiently. Moreover, critics believe that concentration on this issue shifts the focus from its proper place: the raising of living standards – particularly those of the poor – in developing countries.

The EBRD is the first such institution to contain specific reference to political conditions in granting assistance. Political conditionality is excluded by the articles of association of the World Bank, which say loans can only refer to economic conditions.

It is argued that the reason the EBRD should be different is the consensus that now exists within Europe as to the way forward politically. That consensus is not replicated in an international setting.

Nonetheless, questions which would previously been regarded as political and therefore off-limits for the World Bank are increasingly being considered before loans are being granted – one demonstration of how a development bank's business is becoming more complicated. Shareholders in effect gave a go-ahead last month for the bank to take account of "excessive military spending" in deciding whether a country should receive assistance. The justification is that military spending has a fiscal dimension, and can have an impact on development.

The controversial delaying, under US insistence, of an IADB project loan to Brazil in March (because of that country's arrears to commercial bank creditors) is one of several factors which suggest to some that there may be a less individual approach among IFIs to borrowing countries.

This seems to make them more dependent than ever on the IMF imprimatur. Upon this hang loans from the World Bank and structural adjustment loans from other IFIs, as well as commercial and official debt reschedulings.

There is no doubt that as time passes the IFIs are moving into areas where they are potentially more intrusive into policy-making in borrowing countries. However, there exists at least for the moment a broad consensus in many governments about the importance of markets and the private sector; of reining in fiscal deficits and of eliminating distortions to trade and prices. This consensus is likely to lessen any controversy in the near-term. The problems going forward may well be to persuade the industrialised world of the value of these precepts.

Stephen Fidler

Simon London analyses the global capital markets

The 'credit crunch': hard fact or financial fiction?

FEARS of a global credit crunch were voiced by Mr Nicholas Brady, the US treasury secretary, at last month's Washington meeting of finance ministers of the Group of Seven industrial nations.

The remedy prescribed by the US administration is lower interest rates and easier monetary conditions. However, there is a school of thought that suggests the benefits of easier money will not be passed on to the real economy this time around.

Instead, the banks will use easier conditions to shore up their depleted balance sheets by restoring lending margins, retaining income and building capital resources.

The fact is that many banks are fighting to meet minimum requirements laid down in the Basle accord on international bank capital adequacy. The credit crunch, it is argued, is *only the visible symptom of an* underlying capital crunch.

Under the Basle guidelines, banks must hold capital equivalent to at least 8 per cent of risk-weighted assets by the end *of 1992. Of these capital* resources, at least half must be Tier I – equity or non-cumulative, irredeemable preference shares. The rest can be Tier II capital in the form of loan loss reserves, *subordinated debt* and revaluation reserves.

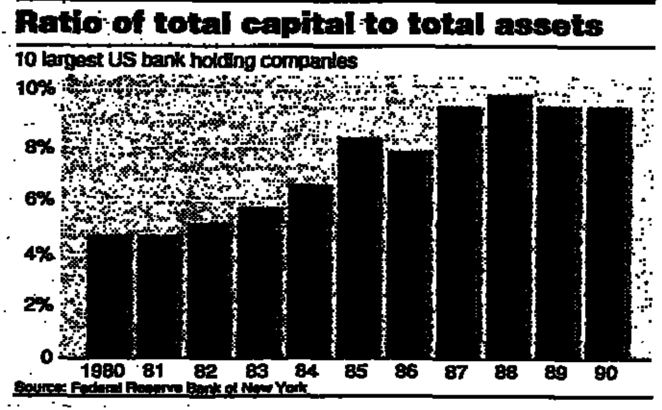
A common problem for international banks is that having expanded assets rapidly during the 1980s, they have found it difficult to raise capital.

The capital markets have not been willing buyers of equity, preference shares, or subordinated debt. Profits have been decimated by loan losses in areas such as real estate and developing country debt. Hence capital resources have not always kept pace with assets.

Different banks in different jurisdictions face different problems. Some lack core capital in the form of equity, some need to raise more Tier II subordinated debt.

Moreover, while banks are working hard to meet existing regulations, the regulators are formulating new targets which will cover such areas as foreign exchange risk.

Ratio of total capital to total assets



Source: Federal Reserve Bank of New York

Banks are also worried that *sudden accounting rule* changes will leave them short of the Basle standard. For example, the Basle committee of central bank regulators has proposed a tightening of the *accounting treatment for bad* debts.

If the Basle committee gets its way, banks will no longer be able to treat general loan loss reserves as Tier II capital.

Having expanded assets rapidly, banks have found it difficult to raise capital

Any reserves earmarked for specific credits or for identified asset deterioration would be excluded from capital resources – beyond the general limit that reserves of no more than 1.25 per cent of risk-weighted assets may be counted as Tier II capital.

This would prevent banks from including reserves against real estate loan losses, or loans to developing countries, as Tier II capital.

The March edition of the *World Bank Quarterly Review* noted that such a change would have an uneven impact on the world's banks. In the past, for example, US banks have not publicly differentiated between reserves against specific credits and general reserves.

Equally, Salomon Brothers estimates that exclusion of developing country debt provisions would lower the Tier II *capital ratios of the Japanese* city banks by 0.24 per cent on average.

Against this uncertain background, however, there are several signs that the capital *crunch is easing.*

In Japan, the strength of equity prices this year has buoyed the capital adequacy ratios of Japanese banks, which are allowed to count 45 *per cent of unrealised gains* from holdings of securities as non-core capital. Every 1000-point move in the Nikkei stock market index changes the city banks' capital ratios by around *0.2* per cent.

The average city bank's capital adequacy ratio, therefore, appears to stand at around 8.5 per cent today, against 7.8 per cent in September last year, when the Nikkei stood at around 21,000 – 5,000 below its current level.

In France, the government's decision earlier this year to allow nationalised companies to tap the domestic equity markets may help the country's banks boost depleted Tier I resources.

A more general fillip for capital-hungry banks has been a renewed willingness of investors to buy common equity, preference shares and subordinated paper issued by financial institutions. This trend has been most noticeable in the US, perhaps the biggest market for preference capital and subordinated debt securities.

In the first three months of this year, US banks raised $1.8bn in subordinated paper. Last month, National Westminster Bank became the first overseas financial institution to tap the market this year, with a $750m offering of 10-year subordinated paper. Barclays Bank proved that US buyers can once again be *found for large public issues of* preference capital by making a $200m offering in March - the first by an overseas bank since June 1990.

In addition, there are signs *that international investors* are more receptive to banks. NatWest and ANZ raised £100m and £50m respectively of Tier II capital in the international bond market in April.

Bank of Scotland has asked shareholders to provide a further £194m of core capital, the first rights issue by a UK bank in more than two years.

However, in the US in partic*ular, there are arguments that* the banking system is not actually short of capital. Rather, it is inefficient at distributing capital within the system.

For example, in the annual *report of the Federal Reserve* Bank, Mr Gerald Corrigan, the chairman, commented:

"It is by no means clear that the US banking system is short of capital. In fact, the opposite may be true, even though some individual banks need more capital. In part, the suggestion that there is too much rather than too little capital grows out of the widespread impression that the United States is 'overbanked'."

Taking figures for the third quarter of 1990, the US banking system required roughly $160bn of core capital to maintain a 6 per cent Tier I capital to assets ratio – compared with a minimum Basle ratio of 4 per cent. In fact, the amount of capital in the system was $200bn.

One implication of these figures is that the US banking system will have to undergo a major period of consolidation to match the capital to the assets.

Credit crunch or not, many of the world's banks could be facing a period of significant change.

David Lascelles considers the impact of regulation

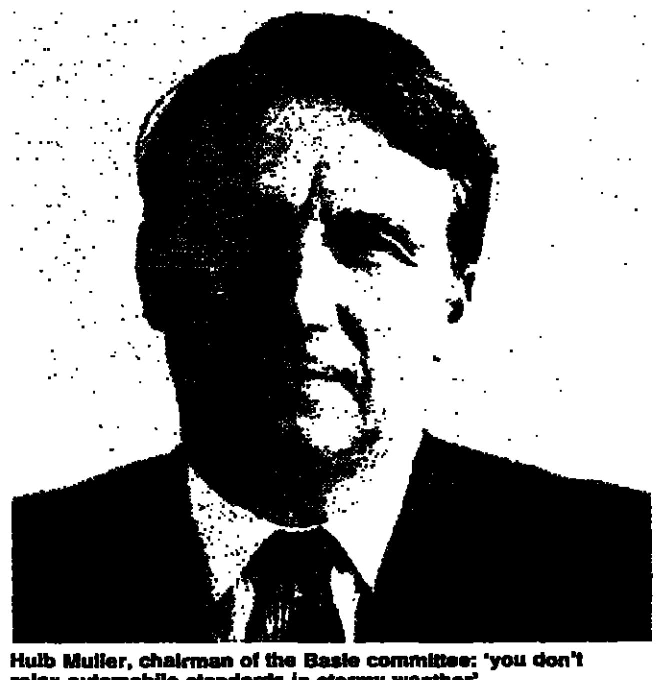
Reforms fail to keep pace with changes in the markets

BANKING has always provided a field day for rule-makers, but seldom so much as now.

Officials in Brussels, Washington, Tokyo and Basle are hard at work on blueprints to make banking safer, more efficient or fairer. But, with some exceptions, the pace of progress is slow, and regulation has failed to keep up with many changes in the markets.

One of the officials' biggest tasks has been to push ahead with the Basle agreement on capital, now due for full implementation by the end of next year. The agreement sets minimum capital standards to which all banks must adhere. But there have been worries in countries facing recession, such as the UK and the US, that the standards are squeezing the banks' ability to lend, and worsening the danger of a credit crunch. Calls have been made to relax the rules.

Mr Huib Muller, the Dutch central banker who chairs the Basle Committee, has resisted them on the grounds that "you don't relax automobile standards in stormy weather."



Huib Muller, chairman of the Basle committee: 'you don't relax automobile standards in stormy weather'

Nonetheless, the Basle rules have forced banks which expanded beyond their capital capacity to retrench, particularly the Japanese. This in turn, has reduced the intensity of competition in the international market and enabled bankers to widen profit margins.

The knottiest issue which draws banking officials together is how to accommodate the steady convergence of the banking and investment markets which has resulted from the banks' growing interest in securities dealing. In the US and Japan, where the two markets are separated by law, legislators are considering ways of lifting the legal barriers. In Europe, where no such separation exists, the challenge is to manage their co-existence.

One of the central planks of the proposals put forward by Mr Nicholas Brady, the US treasury secretary, to reform US banking law earlier this year was for banks to engage in securities underwriting. His proposal fell short of abolishing the Glass-Steagall Act which makes the separation. Instead, it would require the banking and securities operations to be separately incorporated under a common financial services holding company. This would create a "firewall" round the bank and protect it from the losses of other subsidiaries.

The proposal disappointed the big US money centre banks which wanted to be able to combine securities and banking under one roof, universal bank style. But it also angered the Wall Street securities firms who saw themselves having to compete with banks who had the advantage of cheap funds from their customer deposits.

However, it is still far from certain that Congress will legislate such far-reaching reform. It is a low priority compared to the more urgent task of recapitalising the US' deposit insurance fund, which has been drained by losses. The crisis in the US banking industry has also greatly reduced the number of banks who are interested in, or able to take advantage of deregulation.

Nor is much progress evident in Japan, where a similar deregulation exercise is underway. Proposals from the banking and securities supervisors are being hammered into a reform package by the *Ministry of Finance*. This will also likely adopt the US-style holding company concept, but Japanese officials are warning that actual reform may still a long way off.

In Europe, where banks are free to deal in securities, the regulators' task has been to ensure that banks and securities houses compete on equal terms in the markets where they overlap.

The Basle Committee has been drawing up rules to cope with the risks that banks run when they deal in equities, foreign exchange and interest rate-sensitive instruments. But their work has been hampered by the failure of their opposite number in the securities business, the International Organisation of Securities Commissioners (IOSCO) to agree common ground. A proposed Basle-IOSCO Meeting in April had to be postponed for six months.

Some urgency is now developing on this issue, not just because banks are taking on market risk anyway, but because work has to keep in step with the Brussels Commission which is drawing up similar rules for the 1992 single market.

However Brussels has also found it hard to draw up capital adequacy rules on investment activities which do not discriminate either against *banks or securities houses* There has even been speculation that the whole exercise might be dropped if agreement cannot be reached. But Brussels officials are still hoping for a compromise.

Supervisors are also worried about how to deal with the growing number of financial conglomerates which combine banking and other types of activity. *Last year's collapse of* British and Commonwealth, the UK banking, broking and leasing group, drove the need home for a clearly thought out approach.

The collapse occurred because of losses in the computer leasing arm. But this quickly precipitated the failure of the group's banking arm, even though it was financially healthy. *A subsequent meeting* of international supervisors in Frankfurt decided to put the issue high on its agenda.

Although the crisis in US banking has emphasised the need for close supervision of banks, it comes against a background of complex changes in the financial services industry which may require them to have greater freedom.

But regulators have so much on their plates that some fresh initiative may be needed to get the work done.

Mr Richard O'Brien, chief economist at American Express Bank, suggests that central banks could play a bigger role in co-ordinating financial reform programmes, and helping to reconcile differing objectives. He even suggests that the financial services industry needs what he calls "an overarching, global framework."

INVESTMENT BANKING

Tough competition

INVESTMENT bankers are heartened by the performance of their markets this year, in stark contrast to conditions last summer. Stocks and bonds have performed well since the end of the Gulf war and, at least in certain sectors, fee-based corporate finance is on the increase.

But competition for the business is stronger than ever and commercial banks are finding it tougher to compete with the securities houses and the merchant banks. A few have a chance of staying in the race and remaining profitable, but more may soon take the option of getting out altogether.

Earlier this month, Bankers Trust of New York announced substantial cuts in its corporate fiance department due to sluggish activity in corporate lending and merger business.

The Eurobond market demonstrates how investment banking power is being concentrated in fewer hands. Last year the top ten bookrunners on all Eurobond issues accounted for nearly half the total, according to Euromoney. Only one commercial bank, J. P. Morgan, was among the ten, occupying sixth place.

Some of the US commercial banks, notably Chemical and Chase Manhattan, have cut their losses and virtually abandoned the Eurobond market. Others that were once strong in the new issue market, aiming to support their secondary trading business, have been weakened by competition. Bankers Trust, ranked 11th in 1989, slipped to 18th last year.

In their domestic securities markets, commercial banks are enjoying mixed fortunes. While the Japanese banks are still barred from the most lucrative sectors of the securities business, their US counterparts are slowly forcing the door open. The Glass-Steagall Act, which has kept US banks out of securities for nearly 60 years, is slowly crumbling.

In 1989, four banks – Morgan, Chase, Bankers Trust ad Citicorp – began underwriting corporate debt. Last year Morgan scored a first when it was given permission to underwrite domestic equity issues. In January it co-managed a $100m convertible bond for Centocor, a US biotechnology company.

It remains to be seen whether Morgan makes money out of its new activity. But, unlike Citicorp, an arch-rival that has set its sights on being a global consumer bank, Morgan decided long ago to take the investment banking route. Less than one-third of its assets are now tied up in traditional lending.

The UK commercial banks, which became involved in securities nearly five years ago at the time of "Big Bang", have had an unhappy experience. Fierce competition from the Wall Street houses in London combined with shrinking trading volumes have dented revenue while costs continue to escalate, despite staff cutbacks.

BZW, the investment banking arm of Barclays, has had an uphill struggle to establish itself. Profits jumped to £54m ($93m) in 1989 but last year slumped to only £5m, a tiny return on its £400m of capital. County NatWest, part of rival National Westminster Bank, never overcame an internal clash of cultures between the bankers, brokers and market-makers who came together at its formation. It has never made a profit and last year posted a loss of nearly £50m.

Both banks have had problems in establishing a successful corporate finance unit to support their securities trading activity and, most important, to bring in fee-based income. All investment bankers recognise that a key element of corporate finance work is expertise in mergers and acquisitions.

True, M & A business in the US and UK has been on the decline. The value of deals completed in the US last year was down by nearly 40 per cent, while cross-border activity also declined. According to figures from *KPMG Peat Marwick McLintock*, the value of all cross-border deals fell 13 per cent to $114bn in 1990.

But the imminent single European market has raised hopes of an upturn in M & A activity, if only gradually. The restructuring of industry, which is essential to make the single market work, is certain to need the help of M & A specialists, argue the optimists.

A few commercial banks may benefit from such an upturn. Although powerful Wall Street houses such as Morgan Stanley and Goldman Sachs dominate the international M & A market, J. P. Morgan is one bank that is high in the rankings. Last year it took third place in a table of advisers on cross border deals compiled by *International Financing Review*.

No other bank featured in the top ten although there are isolated examples of US banks advising on cross-border deals. In the £533m acquisition by Guinness of Spain's largest brewer, Cruz del Campo, the Spanish company was advised by Chase Manhattan.

The extent to which the commercial banks can penetrate the European M & A market depends on their international ties. This applies to the Continental banks as well as their English-speaking counterparts. "Indigenous banks in Europe have strong client relationships within their own countries", says Mr Guy Dawson, head of corporate finance at UK merchant bank, Morgan Grenfell. "But many of them do not have a genuine international network."

Morgan is part of Deutsche Bank, which is using the UK merchant bank to beef up its corporate finance activity worldwide. Crédit Lyonnais is stepping up its international M & A effort: it recently hired Mr Jean-Luc Biamonti from the New York firm of Wasserstein Perella as part of its campaign.

Even if corporate clients are not merging or acquiring, they may well be divesting operations that are no longer financially viable. This is especially true of companies which borrowed heavily during a period of high interest rates.

Here, commercial banks should be able to help such clients, particularly if they have an existing tie, perhaps through a lending facility. It is no coincidence that banks are now talking of a swing away from one-off deals back to relationship banking.

This may hold the key to the success (or otherwise) of their investment banking efforts. Capital is crucial, as is a broad international network. But the ability to build lasting client relationships is the most important ingredient.

Nigel Adam

RETAIL BANKING

Cut-throat business

RETAIL BANKING, once an effortless money-spinner for the banks, is becoming a cut-throat business as deregulation and increased competition spread through the international markets. In some countries, markets are still being opened up to competition. In others, competition arrived years ago and is now starting to claim casualties.

In the US credit card industry for example, probably the most advanced in the world, competition is ferocious. Interest rate competition has broken out in earnest with First Wachovia, an Atlanta-based bank, offering the lowest interest rate of any leading issuer – a floating rate of prime rate plus 2.9 percentage points, currently around 11.9 per cent, while on the other side of the business even American Express is bowing to pressure from food and drink retailers to lower commissions.

Banks now have to fight growing competition from retailers such as Sears Roebuck and American Telephone & Telegraph (AT&T), the telephone company. Sears not only has its own payment card, Discovery, it is also fighting Visa's right to exclude it from membership.

Mr Charles Russell, president of Visa International, hints that changes in Visa's membership rules may be on the way to ensure that late entrants into payments systems have to pay their way.

The frantic state of the US card market is an extreme example, but similar pressures are beginning to be felt elsewhere. In the UK, banks' profits were slashed not only by provisions on corporate and Third World lending, but also by provisions on retail lending.

Lloyds Bank, for instance, put aside £487m in 1990 (up from £162m in 1989) on its retail business. Its credit card operations slipped into loss, even though Lloyds led the way in introducing annual charges for card customers.

At least UK banks do not yet face challenges from retailers such as AT&T's Universal. AT&T broke into the MasterCard and Visa markets through its subsidiary Universal Bank, offering a card which undercut those of the banks. With 4.5m holders, it now ranks sixth in the industry.

In some retail banking markets, the emphasis is still on deregulation and breaking down long-established cartels in the industry.

"I think in Japan, people are right when they say that deregulation cannot come in a rush. It has to be achieved on a step by step basis", says Mr Mr Carl Pascarella, president of Visa International's Asia Pacific Region. However, Mr Pascarella is hopeful that Visa International is poised for a breakthrough in the Japanese market, where for several years it has faced strong competition from local bank cards allied to MasterCard and from charge cards, notably JCB.

In the US credit card industry, competition is ferocious

JCB itself is expanding its overseas network of merchant outlets. In the UK, it hopes to grow its network from 10,000 to 50,000 in the next few years, using Midland Bank's merchant services.

Some credit card products familiar in other countries are as yet largely unknown in Japan. Japanese automatic teller machines are among the most advanced – and the cheapest to operate – in the world, but there is little use of electronic terminals and EFTPOS (electronic funds transfer at point of sale), while debit cards have been very slow to emerge.

On the other side of the world, Visa International would like to crack the German market by persuading one of the three large German banks to join it. Last year, however, Deutsche Bank, the largest German bank which has led resistance to Visa, launched a Eurocard with a revolving credit which it is marketing to the general public as well as to its own customers. The move signals a further step towards competition, but boosts the Eurocard/MasterCard alliance.

Meanwhile the European Commission doggedly continues to try and build up a single market in retail banking as in other areas.

In October 1990 the commission published a green paper on cross-border payments. Sir Leon Brittan, the commissioner responsible, says that building a common payments system is an essential plank for the Community's plans to establish a single market in all areas of economic activity.

Commercial banks in the twelve EC nations initially reacted with some hostility to Sir Leon's proposals, evidently seeing them as an attack on the lucrative commission income they earn each time a payment in one community currency is translated into another. Two committees of consumers and bankers are now looking into the problems involved and are due to report by the end of the year.

In the marketplace, European financial services players are reaching out beyond their home countries. Barclays and Bank of Scotland have both entered the German credit card processing market and Barclays has started to issue Visa and debit cards in Germany.

In the mortgage market, Hypobank (Bayerische Hypotek und Wechsel Bank) has announced plans to market its mortgage products in Italy. Two British lenders, Abbey National and Woolwich Building Society, are already there. Hypobank has already set up subsidiaries in several European countries including Britain. By contrast, Halifax, the largest UK mortgage lender, has yet to set up operations outside its country of origin.

Woolwich has also entered the French market by buying Midland's French subsidiary, Banque Immobilière de Crédit.

In the UK, however, a number of the foreign banks which entered the market in the late 1980s are now trying to withdraw because of the depressed housing market. Westpac of Australia sold its £200m mortgage book to Household Mortgage Corporation, a specialist lender, in April.

Around 30 smaller mortgage lenders are now trying to withdraw from the UK market, following the lead of Chase Manhattan, which sold its portfolio to HMC early this year.

Those who plan to soldier on in the UK recognise the need for caution. "We intend to stay in the UK mortgage market, but we recognise that for the time being one has to go slowly and keep a low profile," says one London-based French bank.

David Barchard

THE UK

Victims of recession

"BUSINESS conditions for banks have probably been the worst in recent history, and they are unlikely to improve in the immediate future."

This was the stark message from Mr Charles Winter, chief executive of the Royal Bank of Scotland, when he reported a 58 per cent fall in interim profits at the beginning of this month.

His words probably go for everyone else in the UK banking industry. The recession has had a devastating effect on banks. Bad debts have soared, new business has slumped, and with it the industry's earning power. Sir John Quinton, the chairman of Barclays, the largest clearing bank, even went on record as saying that conditions were the worst he had seen in his 38-year career.

UK clearing bank results (£m pre-tax)

	1989	1990	% change
Abbey National	501	582	16%
Barclays	692	760	10%
Lloyds	(715)	591	-
Midland	(261)	11	-
NatWest	404	504	25%
TSB	155	312	101%

Source: Company figures

Although the Big Four clearing banks produced better results in 1990 than in 1989, this was only because the previous year's bottom line was depressed by heavy provisioning against Third World debt. At the operating level, all the big UK banks saw sharp declines in 1990. Their bad debt charges totalled a record £3.7bn ($6.2bn).

These severe conditions have produced their particular casualties. One of them was the Midland Bank's proposed merger with the Hongkong and Shanghai Bank, which had to be shelved because neither bank was robust enough to proceed. Five banks, the largest of them British & Commonwealth Merchant Bank, were also forced into administration – the first bad spate of bank failures in a decade.

This spring, few bankers saw an early end to it all. Lord Alexander, the chairman of NatWest, told shareholders not to expect any improvement in the first half of this year. Because the peak in bad debts tends to lag behind the recovery, the latter part of this year could still bring heavy losses.

But the more enduring impact of the recession may well be to speed up the shake-out in the banking industry. All the big clearing banks have now embarked on major cost-cutting measures which will involve the loss of more than 30,000 jobs and several hundred branches over the next two or three years. In some cases, as with Lloyds, this also involves a retreat from specific markets overseas, usually those on the periphery.

The biggest structural question hanging over the clearing bank sector is the future of Midland now that the Hongkong marriage is off. Sir Kit McMahon, the chairman, is leaving early to make way for new management under Mr Brian Pearse, the former finance director of Barclays, to sort out the bank's future. Although there has been much speculation about a possible takeover of Midland, it is hard to identify a credible candidate. Mr Pearse is now engaged upon a strategy review, but he is expected to fight to keep Midland independent.

Five banks went into administration – the first bad spate of bank failures in a decade

The merchant banking sector has also been hard hit. Profits have been down at leading names such as Schroders, Kleinworts, Warburg, Barings and Morgan Grenfell, with the causes mainly last year's depressed investment and corporate finance markets. An exception was Hambros, whose more specialised approach enabled it to report an 18 per cent increase.

A notable disaster was Guinness Mahon which lost £35m on bad debts. This was significant because the group was acquired only two years ago by the Bank of Yokohama in what was seen as a ground-breaking move by a Japanese bank into UK merchant banking – but now one which others will be in no hurry to follow.

The recession has not helped the image of the banking industry. Accusations of banks "pulling the plug" on hard-pressed customers abound. But the banks have taken steps to meet a worsening market. They have re-opened the intensive care units with which they nursed corporate casualties through the last recession. In a few isolated cases they have even converted loans into equity, though they stress that this is not a trend which they encourage.

Their position has not been helped by the widespread view that banks contributed to the present recession through excessive lending in the 1980s – a charge which they naturally deny. Nonetheless, they are trying to complete a new Code of Conduct to head off the threat of tougher legislative controls on their activities.

But not all bankers take the gloomy view. The Bank of Scotland, long considered one of the best-managed UK banks, has just announced a £200m rights issue because it wants to take advantage of what it considers to be excellent prospects in the UK.

Mr Bruce Pattullo, the group chief executive, points out that the problems besetting many banks are helping to reduce competition and improve the profitability of the banking market. So any bank which can enlarge its market share should be well-placed. "Our whole delivery system is geared to winning market share," he says. "In the future this business will have higher margins."

David Lascelles

THE UNITED STATES

A wary optimism

THE pessimism which seemed to surround the US banking industry just six months ago, as bad debt provisions soared, has changed to a wary optimism that the worst may be past.

However, the current US recession could yet spring some nasty surprises. Even if the industry's earnings are on the mend, it still faces a painful period of cost-cutting and consolidation – amid government efforts to push through the biggest reform of the industry since the 1930s.

The crisis atmosphere of last autumn was concentrated mainly in the north-east of the US as a regional recession, which developed into a full-blown national downturn, undermined the commercial property market. Banks' real estate loan loss provisions mounted sharply, the Boston-based Bank of New England teetered on the edge of insolvency (finally succumbing in January) and dark rumours circulated about the possible failure of one of New York's large money centre banks.

Since then, however, there has been a dramatic change in sentiment, underlined by a sharp rise in bank share prices in the first quarter of this year and a willingness of investors to inject sizeable amounts of new capital into the industry.

It is perhaps significant that the failed Bank of New England was eventually bought by Fleet/Norstar Financial, a fast-growing Rhode Island bank, with the backing of Kohlberg Kravis Roberts, the leveraged buy-out specialist. It was the canny KKR's first foray into banking.

Admittedly, Fleet/Norstar and KKR got a very attractive deal on BNE – the government-run Federal Deposit Insurance Corporation will assume all the bank's risky loans, almost assuring the buyer lucrative returns.

But the industry's fundamentals are also starting to look brighter, even though most banks reported a slide in first quarter earnings, mainly due to further jumps in bad debt write-offs and provisions.

The gradual reduction of short-term interest rates over the past half year by the Federal Reserve has cut banks' funding costs, while lending rates have remained relatively high. The banks' net interest margin – the difference between the average cost of deposits and average yield on loans and other assets – has widened markedly.

In addition, the pace of increase in bad loans has been slowing. For example, Citicorp's addition to non-performing assets was $750m in the first quarter, compared to $900m in the fourth quarter of last year and $1.1bn in the third quarter.

That said, property problems are far from over. In much of the north-east, commercial real estate values are continuing to fall and many banks expect to make hefty provisions to the end of the year and possibly beyond. The problems extend right down the eastern seaboard, while California also suffers from a large overbuild.

Moreover, the recession has been pushing up credit losses on consumer loans and could further intensify the banks' problem portfolios of so-called HLT loans – borrowings which financed highly leveraged takeovers in the 1980s, many of have turned sour.

On the positive side, the crisis has given a new urgency to banks' efforts to cut their operating expenses. Jobs are being slashed, operations rationalised and peripheral or unprofitable businesses sold off.

Costs could also be cut if a long-forecast consolidation of the industry through mergers finally starts to happen.

However, any move in this direction may have to wait for greater confidence in the industry that it is really on top of its property problems.

Wells Fargo, the San Francisco-based bank, held abortive talks on a possible merger last year with Los Angeles-based Security Pacific. A combination of the two would be the second largest bank in the US, but the talks were apparently suspended last December shortly before Security Pacific announced a large loan loss provision and a retreat from world banking. On the east coast, a popular New York guessing game is which of the large money centre banks will merge.

Meanwhile, the super-regional banks which have emerged via takeovers over the past few years – such as Banc One in Ohio and NCNB in North Carolina – are also looking to expand their empires: Banc One considered a bid for Bank of New England, but was eventually

That sinking feeling: Bank of New England failed in January

put off by the state of the regional economy, while NCNB has been casting an eye over Florida's troubled Southeast Banking.

Cost-cutting would also be helped if the government's plan for an overhaul of banking legislation goes through Congress. For one of its central features would be to scrap the McFadden Act of 1927, which imposed severe controls on inter-state banking. The Treasury proposals now being considered by Congress would allow banks to open branches across state lines without restrictions and buy banks in other states much more easily. At present, holding companies have to operate separate banks in separate states, which blocks them from significant economies of scale.

Another central feature of the legislative package is a reform of the current system of deposit insurance. The Bank Insurance Fund, which compensates depositors in failed banks, has to be recapitalised because of the wave of insolvencies sweeping through the industry. The administration also wants to curtail sharply the protection afforded to depositors, with insurance limited to $100,000 for a regular account at one bank. However, it would also retain the "too big to fail doctrine" – which argues that the fall-out from the failure of a large bank is potentially so dangerous that they must be bailed out, whatever the insurance costs.

This issue has sharply divided the industry, with smaller banks arguing that it (and much else in the legislation) will create a bias in favour of large ones.

So politically contentious is the Treasury reform package that few expect much of it to survive its passage through Congress, except for some movement on deposit insurance and possibly some action on interstate banking.

The administration's proposals to scrap the Glass Steagall Act, which separates commercial banking and the securities industry, seems to have little hope. The same can be said for its plan to inject fresh capital into the industry by allowing industrial companies to own bank holding companies.

If the bill does get mired down in Congress this will not have an immediately damaging effect on the sector, which is looking above all for light at the end of the recession.

But most analysts say that over the longer term, without fundamental changes in the anachronistic framework of the industry, it will continue to be financially stretched, inefficient and likely to retreat further from international competition. Some 20 years ago, there were nine US banks in the global top 30. Today there is just one.

Martin Dickson,
New York

JAPAN

Modest growth forecast

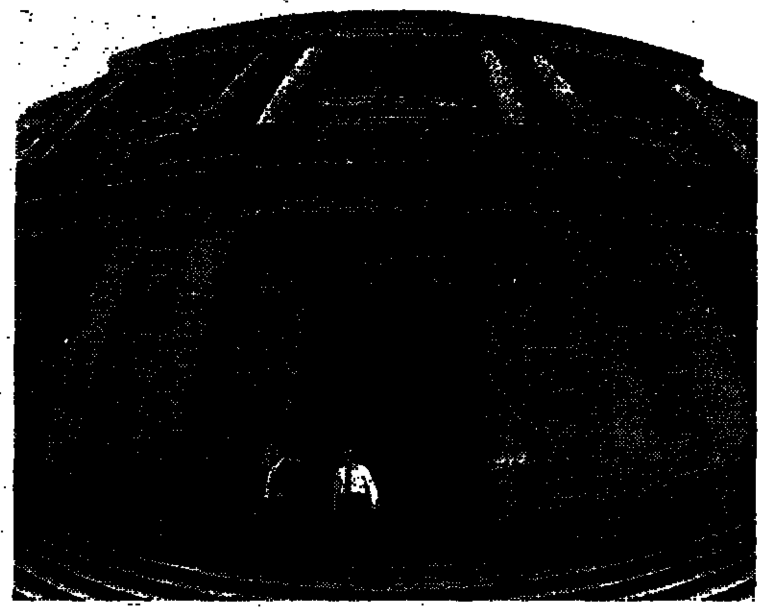
FOR A long time, Japanese banks have been the envy of the world, with their huge access to low-cost funds, unrealised stock gains, supportive regulatory environment and passive shareholders.

A booming stock market and rising yen enabled them to aggressively pursue overseas markets. Japanese banks' share of banking assets rose above 40 per cent as heavy overseas lending continued. Bankers in rival countries, especially the US, complained that Japanese lending practices made it impossible to compete.

But those days seem to be gone. After many years of double-digit growth in their international portfolios, Japanese banks are slowing down, looking to raise asset quality and profitability.

The Japanese economic newspaper, the *Nihon Keizai Shimbun*, recently reported that in the six-month period ended March 1991, foreign currency assets of Japanese banks had declined for the first time. The Bank of Japan said its statistics would not be ready for months, and an informal survey of several major banks could find none willing to admit to a drop. But all confirmed that their international strategies have changed, from almost unrestrained growth, to modest, planned expansion at a single-digit annual rate.

"It has suddenly dawned on Japanese banks that growth is no longer a good thing," says Mr Robert Zielinski, a banking analyst at Jardine Fleming Securities. "It has also dawned on them that they made a lot of bad (foreign) loans, so by limiting their asset growth, the profitability of overseas operations increases."


Bank of Japan: deregulation is at critical point

When Japanese stock prices were high and capital was plentiful, banks measured their success by market share, trying to grow as much as possible. But approaching the March 1993 deadline set by the Bank for International Settlements to bring capital ratios up to 8 per cent, Japanese banks find themselves in a different situation.

The Ministry of Finance has taken a harder line with the banking industry, limiting the ability to raise capital through equity-related financing. Recent weakness in the Japanese stock market has also hurt, lowering the portion of unrealised gains for stock portfolios which can be applied to capital ratios. A slowdown in Japanese economic growth and weakness in the domestic real estate market have prompted international credit rating agencies to downgrade Japanese banks from their top rankings.

One banking analyst with Moody's Japan K. K. says that while Japanese banks have no need to pare back sharply their foreign asset portfolios, a marginal decline would not be surprising. Even following a round of downgradings, major Japanese banks are still at least two ranks higher than their US counterparts.

But financial deregulation has progressed to a critical point in Japan, raising funding cost even further. While the last low-cost funding source for banks, ordinary savings deposits paying about 2 per cent, is still safe from change for the moment, interest rate deregulation is closing in. An advisory council to the finance ministry recently recommended the introduction of money market deposit-type accounts paying higher interest, and the day when all interest rates will be fully liberalised is now in sight.

These changes are making life more difficult for the top "city banks", whose large branch networks and range of businesses will help keep them competitive in most environments. But the specialty institutions – long-term credit banks, trust banks and the Bank of Tokyo – will have a tougher time at home as a result of financial liberalisation, and this may cause them problems abroad as well.

As the international capital markets have grown, the business of lending to large Japanese corporate customers has become more competitive, and less profitable. The trend in the Japanese banking industry has been a shift to smaller customers with fatter profit margins. For the specialty banks with smaller branch networks, such a shift is no easy task.

Mr Hironobu Jibiki, a director and general manager of the international planning department at the Long-Term Credit Bank of Japan, says his bank's strategy at home and abroad is to emphasise low-risk, high-return business, a seemingly difficult job. Overall asset growth for LTCB is expected to be in the range of 5 per cent, compared with more than 10 per cent in recent years. To replace the lost growth in assets, Mr Jibiki says LTCB will try to increase fee-earnings businesses, off-balance sheet transactions and the trading of foreign exchange and government bonds, all of which can raise profitability without requiring banks to set aside risk-weighted capital.

Banks are slowing down, looking to raise asset quality and profitability

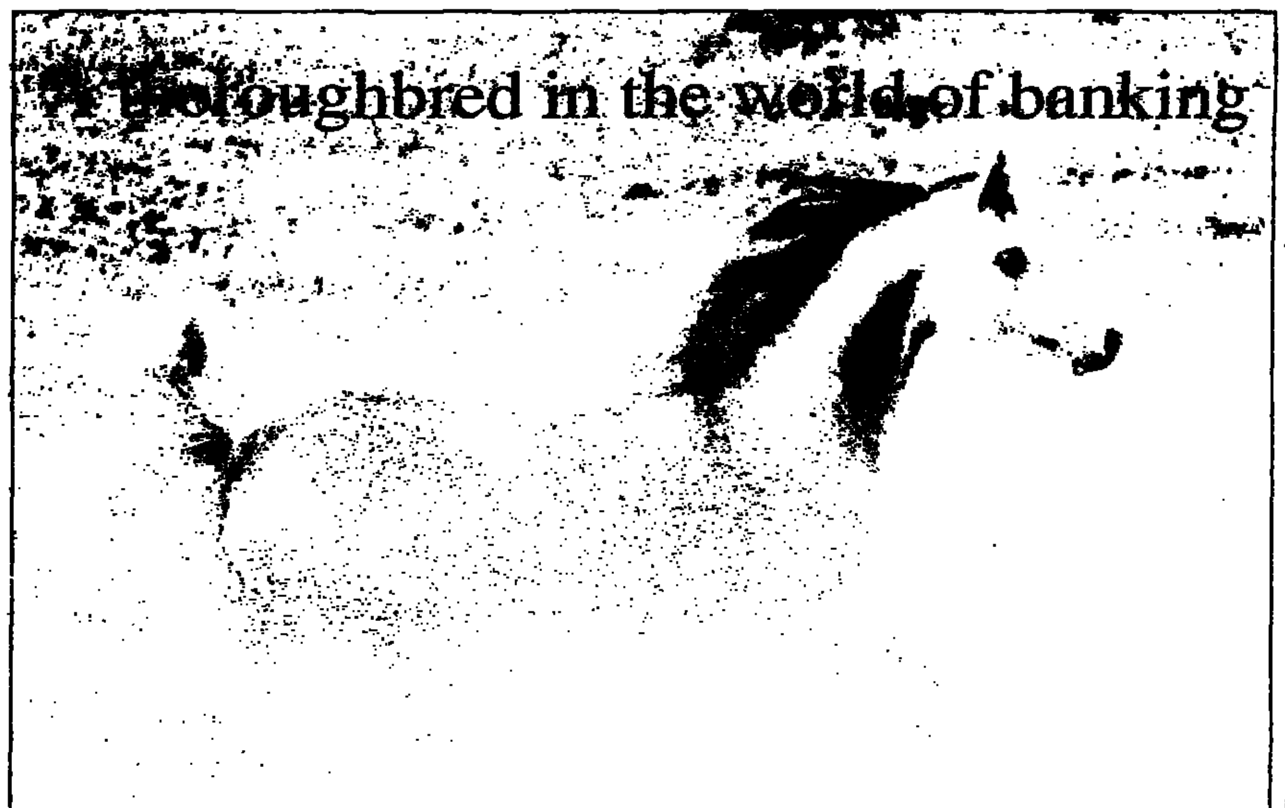
Despite LTCB's aggressive move into US buyout financing in the late 1980s, Mr Jibiki says his bank's share of non-performing assets is much smaller than major American competitors. That will allow LTCB to continue growing at a modest pace, even as other banks pull back, he says.

But Jardine Fleming's Mr Zielinski believes Japanese banks have definitely curtailed their US lending activity. "The profitability of US banks is getting much higher. That is a sign Japanese banks have halted predatory practices in the US."

LTCB's Mr Jibiki will not admit that Japanese banks are pulling back in the US, although he does say the industry is making a big push in south-east Asia.

Still, the number of credit worthy customers in Asia is tiny compared with the US and Europe, which is where analysts say Japanese banks are expected to continue their international focus.

Seth Sulkin,
Tokyo



EUROPE 1992 no longer quickens bankers' pulses as it did a year or two ago: there are too many distractions, such as the emergence of the east European market and the clouds of recession.

However, this has not prevented the prospect of a single banking market from continuing to be one of the strongest forces shaping banking strategy in Europe. A string of recent deals shows that bankers remain keen to forge cross-border alliances and acquisitions.

Barclays Bank has spent several hundred million pounds buying two banks in France and Germany, Europpéene de Crédit and Merck, Finck, following which it now has a foothold in the EC's major banking markets, and is emerging as one of the largest multinational banks. It has also begun to export its expertise in credit cards more aggressively, most recently with a move into the German market where card ownership is among the lowest in Europe.

Crédit Lyonnais has preserved its reputation as Europe's most acquisition-minded bank with a string of smaller deals, most recently in northern Spain, where it is negotiating to buy Banco Jover as part of its strategy of becoming a full service bank throughout the EC.

"Our top priority is to build a major bank in Europe," says Mr Bernard Thiolon, the group's general manager.

Many banks have preferred a more limited strategy and have concentrated on acquiring stakes in other banks so as to foster closer relationships.

Banque Nationale de Paris bought five per cent of Kleinwort Benson, the London merchant bank, and Dresdner Bank bought a similar stake in the Banesto group, which controls one of Spain's biggest banks.

Dresdner also has a partnership with BNP to work together in the single market. The two banks hope eventuall to seal it with a cross shareholding.

One of the most ambitious deals – if it comes off – will be an exchange of stakes between Commerzbank, Germany's third largest, and Crédit Lyonnais. The two banks will probably buy up to 10 per cent of each other. Executives at the two banks say the deal is the best way to gain access to each others' markets because other routes, such as acquisition or building from scratch, are not practical.

At a more workaday level, several banks have also signed co-operation agreements which bind them to share services without necessarily acquiring mutual stakes. Typical was a five-bank agreement signed in March between Crédit Agricole of France, Rabobank of the Netherlands, Banco Ambrosiano of Italy, Lloyds Bank of the UK and Bayerische Vereinsbank of Germany to allow each others' customers access to their branches.

Thiolon: 'Our top priority is to build a major bank in Europe' Lord Alexander: seeking to retain London's pre-eminence

1992 remains a strong force shaping European banking strategy

The lure of the single market

Many of the deals have been made not just to enter new geographical markets but to acquire new expertise. This has been particularly true of acquisitions made in London, where foreign banks have sought merchant banking and fund management skills.

The most eye-catching remains Deutsche Bank's 18-month-old purchase of Morgan Grenfell for almost £1bn. The two banks are building up their relationship, though progress has been hampered by the UK recession and the slump in corporate finance activity which produced a disappointing fall in Morgan's profits. Nonetheless, Mr Guy Dawson, the head of Morgan Grenfell's corporate finance department, says he is pleased with progress.

"This is an opportunity to build a genuine international advisory network using our merchant banking strength and Deutsche Bank's network reach," he says. "But it will only work if we are seen to be independent of Deutsche Bank."

There are similar ambitions at Chartered WestLB, the joint venture merchant bank between Standard Chartered and Westdeutsche Landesbank. Business is building up after a slow start, says Mr Patrick Macdougall, the chief executive.

Many deals have been made not just to enter new markets but to acquire new expertise

In Brussels, much of the regulatory work in the banking area is now complete, according to Sir Leon Brittan, the commissioner responsible for financial services. The Second Banking Directive, which establishes the "passport" which will enable banks to migrate freely across EC frontiers, comes into force at the end of next year. Other measures dealing with capital adequacy and large exposures are in the works.

One big stumbling block that has cropped up is the UK government's attempt to limit acquisitions of UK companies by foreign state-owned entities for fear of "nationalisation by the back door". This has had a big impact on the banking sector because so many large Continental banks are owned by the state.

Although Mr Peter Lilley, the UK trade minister, was unsuccessful in his attempt to block the purchase of Woodchester, an Irish leasing company with a big UK presence, by Crédit Lyonnais, he prevented the same bank from buying Signet, the UK credit card company. Crédit Lyonnais responded by lodging a complaint with the commission.

Significantly, the Bank of England has added its voice to concerns about the growth of state-owned banks. Mr Brian Quinn, the head of supervision, said recently that state ownership of banks could hinder the evolution of the single market because it limits competition. He said EC governments would have to get used to the idea of loosening national control over their banking systems if the single market was to evolve.

But Mr Thiolon of Crédit Lyonnais counters: "The fact of belonging to the state does not imply uniformity. We demonstrate total management autonomy."

The tough stand taken by the UK comes at a time when it is trying to reinforce London's claim to be the leading financial centre of the EC. That position has been seen as vulnerable because of the City's high costs and growing regulatory apparatus.

However the UK's entry into the exchange rate mechanism of the European Monetary System last October was a welcome boost to the City because it carried a political commitment to the process of financial integration with Europe. The Bank of England is now working to build London as a centre for trading in the Ecu against the day when monetary union becomes a reality.

The prize every EC country has its eyes on is to become the home of the proposed European central bank. Lord Alexander, the chairman of the NatWest Bank, made the strongest pitch yet on London's behalf when he said earlier this month: "Our pre-eminence must be maintained on merit – or jobs, prosperity and international influence will evaporate overnight."

David Lascelles

COMMERCIAL BANKING

Caution is the new watchword in lending

A COMBINATION of the recession in the Anglo-Saxon economies and new capital adequacy requirements has led many international banks to look even more cautiously at their lending activities.

The Basle international capital adequacy requirements have had a considerable impact on the loans market. They have forced many banks – particularly the Japanese – either to limit the growth of their assets or reduce their loans books to meet the internationally-agreed standards for the ratio of capital to assets.

Japanese banks accounted for some 40-50 per cent of new lending in the late 1980s. However, concern about the capital adequacy requirements means that they have refrained from participating in the lending market to a great extent. However, one Japanese banker estimates that Japanese banks would account for perhaps 20 to 25 per cent of new lending for the rest of this year.

So what has this meant for those companies which do want to borrow money?

There is no doubt that after years in which the competition was so tough that banks had to fight for business, the shoe is now on the other foot. Bankers find that they are in a position of control. The most noticeable effect is that they can demand a higher price. Pricing on loans – the margins over London interbank offered rates and various fees – has doubled, if not trebled, in the last two years.

The head of one of the larger syndicated loans teams in the City says: "Fees were far too tight before. Bankers couldn't live with that, they couldn't make profits. Take the case of a single-A rated UK company. Two years ago, the margin over Libor would have been 15 base points. A year ago it would have been 20-25 base points. Now it would be 45 base points."

Banks are also in a stronger position to demand tighter financial ratios and more detailed covenants. For example, in some cases bankers require interest cover (profit divided by total interest charged) to be in the range of 2-2.5 times. Bankers say that in cases where interest cover was part of the covenant a year or so ago, it might have been 1.5-1.75 times.

Likewise gearing (the debt-to-equity ratio) has also become a matter of concern. A year ago, gearing ratios of up to 150 per cent were acceptable. Today, bankers feel more comfortable if the upper limit is kept to 100-125 per cent.

They also feel the need to scrutinise company accounts at more frequent intervals, asking for half-yearly or even quarterly management accounts so that they can keep a closer watch on the company's financial position.

Many of the top quality banks claim that they feel less comfortable about lending to a company unless they are given these reassurances. Of course, while banks find themselves in a position of power – stemming from the shortage of lenders – they can demand such financial reassurances. But if and when the lending market becomes more competitive again, perhaps once the recession is over, they may find it difficult to continue insisting on the provision of such figures. Indeed, they could see pricing come down and companies considerably less willing to agree to financial ratios in the covenants.

Bankers find themselves in a position of control

The US recession and economic slowdown in Europe has meant that far fewer companies are in a position to borrow heavily. In the US and UK, many companies are highly geared already. Some are uncomfortable with a high level of borrowing because they feel they are at the mercy of their bankers: if business conditions deteriorate, they feel the banks might become nervous and call in their loans.

As a result, many companies are in the process of raising equity capital to reduce their gearing. The London stock market has seen a spate of rights issues recently as one company after another has taken advantage of the renewed post-Gulf War institutional appetite for equities to reduce gearing.

Other companies feel "safer" using bilateral loans, or borrowing from a very small group of banks as they dislike the idea that their loans could be sold on to a much larger group of banks. If loans are sold on, it can make renegotiation much more troublesome – as Mr Rupert Murdoch discovered with News Corporation's bankers.

The economic slowdown – exacerbated by worries about the situation in the Middle East in the second half of 1990 and early 1991 – has led to a slowdown in the volume of new syndicated loans business. As a result, few banks are beefing up their syndicated loan teams – indeed, National Westminster has decided to cut back staff – though most believe that the gloomy economic conditions will prove short-lived.

Some banks are wondering whether British companies will return to the loans market in the next year or so as their multiple option facilities (Mofs) come up for renewal.

Many British companies set up Mofs in the late 1980s because they provided a range of competitive standby funding options. They were often arranged on very favourable terms for the borrowers. Banks were keen for the business so pricing was aggressive: hence a company pays a fee to be able to draw on funds, often at a rather thin margin over Libor.

A lot of companies took Mofs as a form of cheap "insurance" in case they needed to draw on extra funds. In the event, companies needing funds were often unable to fall back on these facilities as technical breaches of loan covenants allowed banks to wriggle out of their obligations.

One senior banker points out that in many cases the companies arranged to be able to borrow far more than they needed. In his view, such companies are unlikely to renew their borrowing arrangements.

Sara Webb

GERMANY

East path strains resources

GERMANY'S BIG THREE BANKS – RESULTS FOR 1990, IN DM						
Bank	Total operating profit	Partial operating profit*	Net income	Net interest income	Net fee income	Dividend
Deutsche Bank	5.13bn(+9.7%)	4.53bn (+17%)	1.07bn(-20.4%)	9.1bn(+20%)	3.8bn (+29%)	14 (14)
Dresdner Bank	(na)	1.95bn (+4%)	921m (+42%)	4.73bn (+11.9%)	1.85bn (+1.7%)	12 (12)
Commerzbank	(na)	1.38bn (+18.3%)	557m (-0.01%)	3.43bn (+13.1%)	1.34bn (+11.2%)	10 (9)

*Excluding own account trading. Source: Company figures

IN INTERNATIONAL terms, the 1990 results of the big three German banks look more than respectable. Earnings were considerably boosted by strong credit growth accompanied by slightly wider interest rate margins; balance sheets remain basically solid; and, through east Germany, expanded deposit bases constitute an important extra guarantee of future profitability.

At the same time, the year in which the largest of the three, Deutsche Bank, revealed its trading profits for the first time was hazardous for both bond and equity dealers, entailing significant write-downs. *Concern about the deteriorating* position in eastern Europe left its mark on the accounts.

All the banks topped up their risk provisions considerably. Commerzbank, at pains to present a healthy set of figures from Mr Walter Seipp, its retiring chief executive, has raised to 60 per cent its cover on a total of DM5.3bn ($3bn) of country risk exposure. This still leaves it well behind levels at Deutsche Bank and Dresdner, with the uncovered portion representing around 38 per cent of its capital base, compared with 9 per cent at Deutsche Bank and 15 per cent at Dresdner, according to estimates by Salomon Brothers.

The provisions boost at Commerz was paid for largely by sales of industrial holdings, including the extraordinary gain from disposals of its 10 per cent stake in construction company Hochtief. Deutsche Bank's addition of a further eight countries (mostly in eastern Europe) to the list of prob*lem debtors was bought at the* expense of a sharp 20 per cent fall in net income as it put aside what industry sources estimated as an extra DM1.5bn.

Whether to include the Soviet Union as a problem debtor has proved contentious, with Mr Hilmar Kopper, chief executive of Deutsche, revealing at the beginning of the year that his bank was for the first time making provisions, while Mr Seipp and others have fiercely criticised the move as politically insensitive (Commerzbank is less exposed

Picture: Alan Harper

The Dresdner Bank: aiming high in the east

to the USSR, with perhaps DM800m in outstanding loans).

In terms of capital adequacy, German banks may face nothing of the difficulties of, say, the Japanese in meeting the Basle standards, but the separate institutions continue to lobby in Bonn for competitive treatment when EC capital adequacy regulations are written into national law. At the moment highly conservative *standards, upheld by both* Bundesbank and the Berlin banking regulators, severely restrict the domestic institutions in what they can count as core capital. The banks still hope to be successful in persuading Bonn – with an eye on international competitiveness – to relent on the treatment of revaluation reserves.

Expansion into east Germany has represented a serious strain on resources since currency union last July, but the banks have already built up an important new depositor base. Mr Kopper has stressed that it is the 17m east German citizens as private clients that constitute the principal allure for his bank, warranting the leap of faith involved in taking on, through the joint venture, part of the old communist banking system.

Both Deutsche and Dresdner, which also adopted this path, have been able, at least initially, to pull far ahead of Commerzbank, which opted to go it alone in building a branch network – a strategy that has proved more costly than expected. Within three months of starting, both Deutsche and Dresdner had some half a mil*lion new account holders*, and gathered in deposits in excess of DM13bn apiece. "Dresdner has been able to keep pace with Deutsche in its new business development," observes Mr Stephen Lewis, banking analyst at Salomon in London. "It can therefore eventually expect to achieve a roughly similar market share to that of Deutsche in the eastern states – a position it certainly does not have in the west."

All the banks have been wary in their approach to corporate lending in the east while earning useful fees from government-guaranteed loans propping up state industry. At the same time, Mr Kopper said that "a few hundred million" D-Marks had already been allocated in provisions against the restricted amount of own risk lending undertaken in consumer finance and small business – an indication of just how severe the economic climate in the east has been.

While eastern Germany has proved a drain on resources, the banks have not entirely neglected the rest of Europe, particularly France. While Deutsche continues to look for a suitable acquisition, both Commerz (with Crédit Lyonnais) and Dresdner with (Banque Nationale de Paris) claim to be close to effecting share swaps as the basis for more intensive co-operation.

It remains questionable how effective the links will prove to be, but all the banks are convinced of the wisdom of a joint approach in pioneering the tricky east European market. They also believe that the trading links between France and Germany should facilitate a closer interweaving of the financial services sector, particularly in view of the forthcoming single market.

Domestically, too, the banks are in a changing market. Anything from the growth of the credit card business to the proliferation of derivatives products testifies to the evolution of *Finanzplatz Deutschland*. Many new products, most notably tailored derivatives instruments, are important sources of new earnings.

Another particularly lucra*tive area is the upmarket end* of private banking. Here the banks are in the midst of important reorganisations, positioning themselves to capitalise on the much-heralded "inheritance generation" (it is estimated that the Germans' collective net worth will nearly double by the year 2000).

From July Dresdner Bank is resurrecting the old "Hardy" private banking name to start a Frankfurt-based operation managing the portfolios of private clients worth around DM5m or more. Deutsche Bank, which has bought a majority share of the private banking house Grunelius, recently announced it would set up special units around the country to advise depositors with funds of more than DM100,000. In March Commerzbank said that it would acquire the private financial advisory unit of Matuschka, the Munich-based independent financial services group.

Other developments, such as the advent of a D-Mark commercial paper market, have more ambiguous significance. Margins are wafer-thin and the growth of money market instruments in general could eventually help erode the banks' cheap funding base.

On the whole, however, the banks see that change is inevitable, and are increasingly willing to take an aggressive role in promoting such developments.

Katharine Campbell, Frankfurt

FRANCE

The lean years

AFTER several years in which France's banks were able to compensate for the erosion of their profit margins by increasing business volumes, the merry-go-round finally slowed down last year.

With few exceptions, France's leading banks reported sharp falls in profits in 1990: down 53 per cent for Banque Nationale de Paris (BNP), down 25 per cent for Société Générale, down 26 per cent for Paribas.

The handful of banks which reported higher profits were able to do so only because of unusual circumstances. Crédit Commercial de France (CCF), for example, reflected the difficult market conditions with an 8 per cent decline in operating profits, but after securitising most of its sovereign debt the previous year it was able to slash its country risk provisions, allowing net profits to rise by 15 per cent.

Crédit Lyonnais, which announced the best figures with a 19 per cent increase in net profits, did so only because of the integration of Altus Finance, the former banking arm of the Thomson electronics group. The parent bank, like its competitors, recorded lower earnings. Group earnings per share declined, too.

The banks have been hit on a number of fronts at once, with profit margins and volumes both suffering at the same time as a sharp deterioration in the quality of credit risks.

In the capital market sector, banks continued to record poor results. Low stock market trading volumes and a weak new issues market remained problems, while the inverted yield curve continued for most of the year to make it difficult to turn a profit in the interest rate markets.

Corporate lending showed some recovery in volume, but this was more than offset for most banks by the number of defaults, both in France and abroad, where banks like Crédit Agricole, Paribas, Indosuez and Crédit Lyonnais were caught up in several of the more spectacular British bankruptcies. Crédit Lyonnais nearly doubled overall provisions for specific customer risks to FFr4.1bn; the Paribas group raised its by 40 per cent to FFr4.95bn.

Some banks, like Banque Française du Commerce Extérieur (BFCE), recorded a modest improvement in lending margins in 1990. BFCE found its average margin, which had fallen by a full percentage point over the four previous years, rose slightly last year to 64 basis points, and this has improved again in the first months of 1991.

Most banks, said that any reversal in the downwards trend for lending margins had taken place only late in the year. Société Générale, for example, said its average lending margin had fallen by 42 basis points over the course of the year.

Consumer banking, too, brought its headaches last year. After long neglecting this segment of the market during credit controls, the big high street banks have undertaken a breakneck expansion of their consumer loan portfolios in recent years. Last year, the rate of increase slowed down, and the problem loans began to *surface – as consumer credit specialists* such as Compagnie Bancaire and Banque Sofinco had long warned they would.

This problem was aggravated by the introduction of the Neiertz law – named after Mrs Véronique Neiertz, minister for consumer affairs – which set up mechanisms to allow over-indebted people to negotiate out of difficulties. The banks complained that the law has mostly benefited people who are sufficiently cunning to exploit its workings, and who, in addition, have usually lied to their creditors about their other borrowings.

The finance ministry paid some heed to the complaints, and has modified the rules governing money market funds to enable banks to recycle a greater proportion of their captive funds into their own certificates of deposit.

This decision, which involves a relaxation in the rules obliging mutual funds to spread their risks by allowing money market funds to hold up to 25 per cent of their assets in the securities of a single issuer, has been contested as a dangerous reversal of principle, with potential long term investor protection risks. Finance ministry officials defend the decision, however, on the grounds that money market funds have a logic quite different from that of equity and bond mutual funds, and arguing that investors are still well protected.

One final aspect of the deterioration of bank profitability is the substantial rise in operating costs, a rise which augurs ill for the sector's ability to manage its way through hard times.

This costs spiral sounds a note of warning for the future of France's banks. Compared with their international competitors, they can for the most part boast sound, well-provisioned balance sheets, well-developed international networks, and expertise in electronic banking systems and collective money management techniques, but they may have to tighten their belts if they are to survive in lean years.

George Graham, Paris

AUSTRALIA

Unhappy legacy

MR STUART Fowler, managing director of Westpac, looked relatively happy earlier this month when he announced the bank's interim results. It was a change from last November, when Mr Fowler and Sir Eric Neal, chairman, were grilled for more than three hours by unhappy shareholders.

Mr Fowler's good humour reflected a significant improvement in Westpac's results in the six months to the end of March; operating profits increased by 55 per cent to A$241m ($188m). But if Westpac is past the worst, the outlook for the industry remains subdued in the face of a weak economy and the legacy of unwise lending to crashed entrepreneurs.

All three quoted trading banks reported a fall in net profits last year – Westpac down 39 per cent to A$486m, National Australia Bank down 0.1 per cent to A$801m, and ANZ down 43 per cent to A$412m. Even the government-owned Commonwealth Bank, partly insulated by its large home loan portfolio, was restricted to a 4 per cent increase to A$494m.

The problem, said ANZ chairman Mr Milton Bridgland, was "probably the harshest economic environment for small and medium-sized businesses in Australia since World War Two." Technically, Australia emerged from recession in the December quarter, but growth has been weak or negative for five consecutive quarters, and shows little sign of picking up before the end of this year. That will be too late to affect the banks' second half results, which close in September.

Recognising this, Westpac warned that the second half would "subdued," and rubbed in the point by cutting its dividend by 10 cents, to 15 cents. National Australia Bank, which reported on the same day, revealed an 18 per cent fall in interim net profit to A$361m, and also took the axe to its dividend, which was cut by four cents to 22 cents. Mr Don Argus, managing director, said he did not expect the economy to bottom out until early 1992, and suggested the recovery might be delayed until the middle of the year.

The big problem for the banks is the level of bad debts charges against profits. Between them, the big four banks wrote off more than A$3bn in bad debt charges *for the year to September 30*, more than double the charge in the previous year. They also revealed non-accrual loans totalling nearly A$7.8bn, which rose to A$11.7bn after including other problem loans and facilities.

On top of that, Westpac wrote off a further A$552m in the first half of the current year, and NAB nearly doubled its charge to A$456m. ANZ was expected to more than double bad debt charges from A$225m to around A$525m, and more than halve net profits to between A$104m and A$140m, compared to A$310m last year.

The banks deny that their problems were caused by their lending toAustralia's 1980s generation of high profile entrepreneurs, many of whom have crashed with massive debts. "No-one would have thanked us if we had not sought to maintain our share of the growth of the Australian economy," Sir Eric said.

In fact, the banks' share of the Australian home market has increased as a rapid tightening of margins has forced the smaller banks, especially those based abroad, to reduce their exposure. Several significant takeovers raised the big four banks' share of Australia's total banking assets from 66.5 per cent to around 75.5 per cent in 1990. The biggest single increase came from the A$1.6bn takeover of the *State Bank Victoria* by *the Commonwealth* Bank. This was also the catalyst for the partial privatisation of the Commonwealth Bank by the federal government, which plans to offer a 30 per cent stake to investors next month in what will be one of the country's biggest capital raising exercises.

Other significant takeovers last year included the acquisition by ANZ of the National Mutual Royal Bank and the Perth-based Town and Country Building Society. The acquisition of the NMRB, formerly a joint venture between the National Mutual Life Group and the Royal Bank of Canada, followed the government's rejection of a more radical ANZ plan for a A$3.4bn merger with National Mutual, the second biggest life office.

The plan was blocked by Mr Paul Keating, the federal treasurer, on competition grounds, but the government's action has not stopped speculation that further banking mergers and banking/insurance deals are likely when the economy recovers.

Kevin Brown, Sydney

The growing links between banks and insurers

Boundaries blurred

BANKS will sell more and more insurance policies to their customers during the 1990s.

As would be expected for a phenomenon now generally referred to as *bancassurance* or *Allfinanz*, the linkages between retail banking and personal insurance, especially life insurance, will be most evident in Europe, where liberalisation of financial services is most advanced.

However, with the advantages of integration becoming increasingly clear for both banks and insurers, pressure is building in the US and Japan for the barriers separating the two industries to be scrapped. "Any thinking banker can't deny the success being experienced by European *bancassurance* operations," says Mr Michael Hepher, chairman of Lloyd's Abbey Life, one of the most successful UK link-ups.

Europe's three biggest markets already indicate the shape of things to come.

● Most of Germany's leading banks and insurers are entangled in a bewildering series of national and regional alliances, including those between Dresdner Bank and Europe's biggest insurer, Allianz.

A recent report from Salomon Brothers suggests German banks will at least double their 15 per cent share of life and pensions market over the next few years.

● French banks now write more than 50 per cent of new life business. In one of the most impressive success stories, Predica, the life insurance subsidiary of the bank Crédit Agricole created in 1987, is now one of France's top three life insurers.

● Many UK building societies have forged ties with life assurance companies. The Halifax's connection with Standard Life is among the most significant, while the Trustee Savings Bank's TSB Life is described by Salomon Brothers as "a role model for banks entering the insurance market". Lloyds Bank has moved closer than any other bank towards an integrated bank/insurance approach through an innovative deal in which Lloyds transferred five subsidiaries into Abbey Life (including Lloyds' existing life company, Black Horse Life) in exchange for 57.6 per cent of Abbey Life's shares.

Bank-insurance links have also been concluded in Denmark, Italy. the Netherlands, Spain and Sweden. The merger earlier this year between National Nederlanden, the largest insurance company in the Netherlands, and NMB Postbank, the country's third-largest bank, created one of Europe's largest financial services business.

Underlying the business logic of the link-ups is increasing competition. European banks have seen operating margins get much tighter over the last ten years. In particular, as interest bearing current accounts have become more common in a number of European countries, banks have faced a sharp increase in the cost of their deposits. Competitive pressures – in part stemming from deregulation – have also pegged back the rate at which banks can make profits from their core lending activities, forcing banks to seek ways to increase productivity. This is particularly true in countries such as Portugal, Spain and the UK, where branch networks are dense.

French banks now write more than 50% of new life business

Computerisation and information technology have opened up new possibilities of managing a wider and more diversified customer base, and banks have been looking for new products to sell.

Life insurance has been an obvious market for two principal reasons. First, during the 1980s life insurers were increasingly concerned with developing products that offer tax efficient ways of long-term saving (rather than those that offering compensation for death, long-term illness, and other risks) to an increasingly affluent population. As Europe becomes "greyer", its citizens are more likely to invest in private pensions and life insurance products, rather than simply leaving their money in bank accounts. Insurers, therefore, have been straying into territory traditionally regarded by bankers as their own.

Second, with competitive pressures in their own sector mounting, life insurers have been looking to reduce costs, in particular the high expenses incurred in distribution. Distribution via brokers and tied agents can be as much as three times more expensive than sales via a network of bank or building society branches. Insurers can find it easier to sell via bank branches because of the generally good personal relations between a bank and its customer base. Especially in northern Europe, banks can rely upon a particularly loyal customer base. Life insurance sales staff selling through bank networks – using lists as "warm leads" – have been very successful in the UK and Ireland. Mr Hepher of Lloyd's Abbey Life says sales personnel can sell roughly three times more policies a week than their colleagues working for traditional life companies.

Banks have also examined the possibility of selling non-life insurance products, especially simpler home contents and home buildings packages. But this has proved a trickier proposition. The possibility that a home or motor insurer may question the amount or validity of a claim with relative frequency creates the scope for conflict between an insurer and a customer. Banks fear that by selling non-life products they could damage their good customer relations.

In the UK, the National Westminster Bank has circumvented this problem by opting to act as an insurance broker – earning a commission for its sales of policies – for both life and non-life policies.

In Spain, one of the most sophisticated examples of a bank insurance tie-up – that between the Barcelona-based Banca Catalana, which sells the life products of the Norwich Union subsidiary, Plus Ultra – could offer a clue to the course of future developments. Banca Catalana sells savings-related life products directly via its branches but operates as an agent – earning commissions on sales – when it sells Plus Ultra's non-life and risk-based life insurance, such as term assurance or critical illness covers.

Richard Lapper

Canada's banks are seeking to expand in the US

Prudence pays off

ROYAL Bank of Canada's chairman Mr Allan Taylor visited Wall Street last month to remind US analysts and institutional investors that the debt rating of North America's second biggest bank was lifted in 1989 and 1990, and confirmed this year.

Mr Taylor was gently making the point that, while Canadian banks have taken a knock in the past year and are no longer the force they once were in international capital markets, they have the satisfaction of being under less financial pressure than many of their US counterparts.

Indeed, the troubles in the US banking system appear to be helping Canada's banks gain new business in the US, a market which most of them have targeted for future expansion.

The Canadians are reaping the benefits of their extensive nationwide retail networks, which provide a relatively high proportion of stable, low-cost funds. On the assets side, they have (with one or two notable exceptions) been more prudent than the troubled US institutions in financing leveraged buy-outs and commercial property development.

Ms Helen Sinclair, president of the Canadian Bankers Association, says that "through the 1980s, we passed up on a lot of the racier activity. There's a feeling that adherence to sound banking principles has been seen to pay off."

The collapse of several small banks in Canada in 1985 and 1986 may have contributed to the caution. The Superintendent of Financial Institutions now takes a closer interest in all the banks' loan portfolios. Under pressure from the regulator, banks have sharply increased Third World loan loss provisions and have moved to comply with capital requirements set by the Bank for International Settlements.

Most banks have posted creditable performances in a climate of high interest rates and weakening business conditions. Although earnings fell by 15 per cent in the quarter to January 31, Royal Bank still enjoyed a 15.3 per cent return on equity. Its nearest rival, Canadian Imperial Bank of Commerce, had a return on equity of 14.2 per cent. Bank of Montreal's earnings were virtually unchanged from a year earlier, with a return on equity of 14.5 per cent.

It would be wrong to conclude, however, that the banks have sailed through the recession unscarred. Bad debts and non-performing loans have risen substantially in the past year, and are expected to climb further in 1991.

Toronto-Dominion, long regarded as the star of Canadian banking, lost its Moody's Triple-A credit rating earlier this year. Heavy exposure to the depressed Ontario economy has cost it dearly; loan loss provisions almost doubled in the past year, while non-performing loans soared to C$1.34bn (US$1.16bn) from C$517m a year earlier.

'Through the 1980s, we passed up on a lot of the racier activity'

The non-performing portfolio of Bank of Nova Scotia, which made the mistake of rushing into the US commercial property market, has tripled in the past year to C$1.4bn – though BNS boasted a first-quarter return on equity of 14.9 per cent.

National Bank of Canada, the smallest of the six, saw its return on equity slide from 18.9 per cent in the first three months of fiscal 1990 to 2.4 per cent in the final quarter – though it bounced back to 13.4 per cent in the first quarter of fiscal 1991. National's problems included a C$136m write-off of loans to Mr Robert Campeau, the hard-pressed founder of the real estate and retailing group which bears his name, and an exposure to Polly Peck, the failed British fruit-to-electronics conglomerate.

Although the business climate is the banks' main concern at present, they are also keeping an eye on financial service reforms which the government hopes to put on the statute book within the next year or so.

The proposed legislation will open new windows of opportunity and competition. On the one hand, the government proposes that banks be allowed to expand into insurance and fiduciary services by owning insurance and trust companies. (One important caveat is that the banks will not be allowed, for the time being, to offer these services through their own branches. They will also be barred from motor vehicle leasing.)

But the proposed legislation will also expose banks to competition from other financial service groups. Trust and insurance companies are to get virtually unlimited consumer and commercial lending powers. Widely-owned institutions – such as mutual insurance companies – will be allowed to own banks, other than the big six, in which no single shareholder can have a stake of more than 10 per cent.

The banks' response is likely to be more varied than their helter-skelter rush to buy brokerage firms when ownership curbs in the securities industry were lifted in July 1987. At that time, only one of the six, Toronto-Dominion, chose to build up its securities business from within.

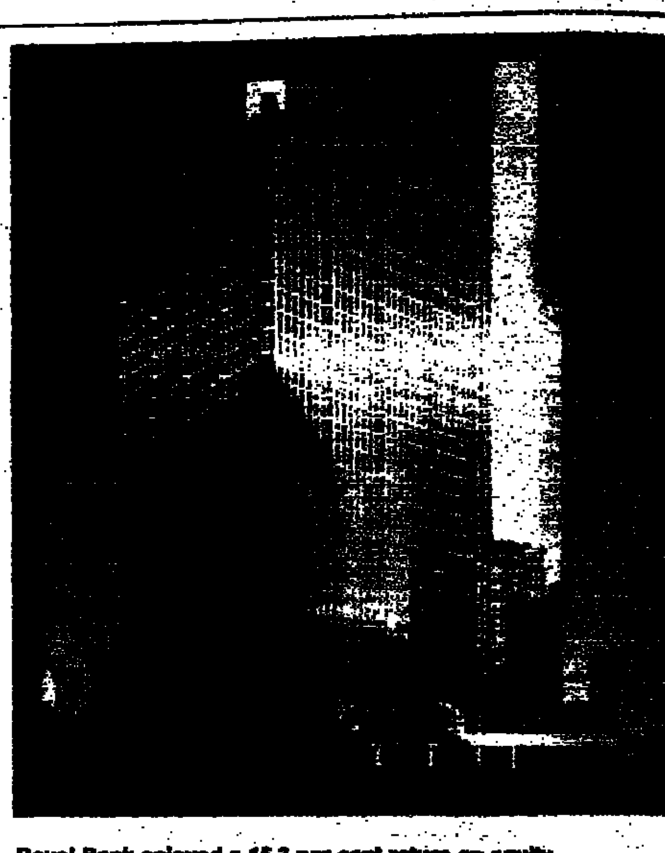
Ms Sinclair predicts the legislation will result in a more diverse financial services industry where, as she puts it, "there will be banks, life insurers and trusts that look similar, while two banks may look very different from each other."

Most banks have already forged marketing alliances with trust and insurance companies, and some have indicated that they are also interested in acquisitions. Mutual-fund management is emerging as another attractive hunting ground.

As their glee over picking up new business in the US indicates, Canada's banks are anxious to expand their presence south of the border, not only in the US, but also to a lesser extent in Latin America.

The prospect of a North American free trade area and Mexico's promising economic outlook has encouraged the banks to take a greater interest in Mexico. Several have long had extensive operations in the Caribbean, while BNS earlier this year bought a 24 per cent stake in Chile's sixth-biggest bank, Banco Sud Americano.

Bernard Simon,
Toronto



Royal Bank enjoyed a 15.3 per cent return on equity

Canada's 'Big Six' banks, three months ended January 31 1991

	Net income (C$m)	Assets* (C$bn)	Return on equity	Capital ratio†
Royal Bank	232.0	130.6	15.3%	8.1%
CIBC	219.3	120.4	14.2%	7.9%
Bank of Montreal	138.6	91.4	14.5%	8.1%
Bank of Nova Scotia	140.2	88.8	14.9%	7.8%
Toronto-Dominion	128.1	70.2	16.6%	8.2%
National Bank	55.3	36.3	13.4%	8.4%

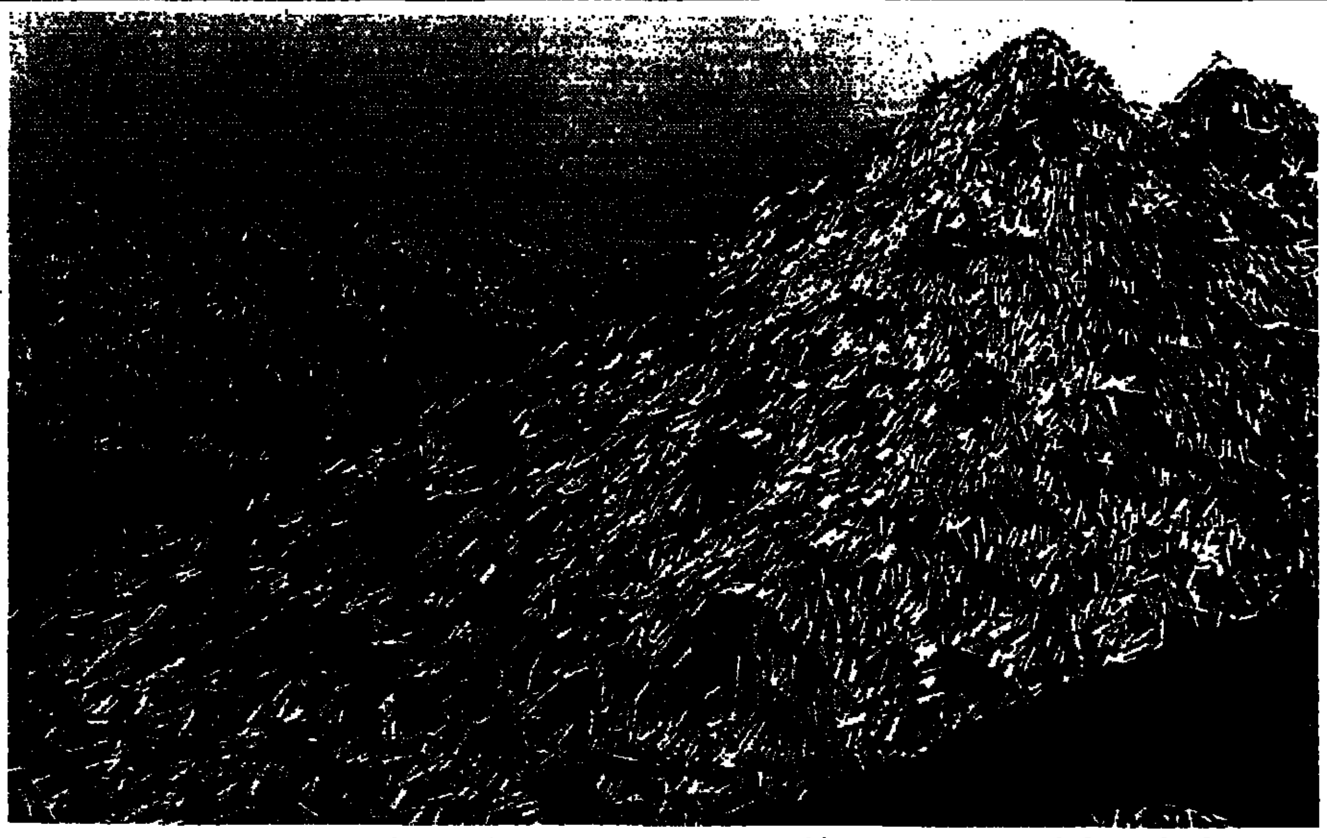
*As at January 31 1991. †Total, risk-adjusted ratio of capital to assets, as at January 31 1991. Source: Company figures

FINANCIAL TIMES SURVEY

WORLD PAPER AND PULP

SECTION IV — Friday May 24 1991

In a little over a year the mood of the industry has changed almost beyond recognition. At the end of the 1980s producers looked forward to a new era of opportunity yet now they are disappointed and disillusioned. **John Thornhill** reports on the change in outlook



The talk is full of gloom

WHAT a difference a year makes. On the eve of 1990, the pulp and paper industry seemingly stood on the brink of a new era of exciting opportunities.

The industry was experiencing one of the strongest spurts in demand and profitability that it had ever seen; a wave of acquisitions and restructurings was reshaping the competitive map; a worldwide programme of unparalleled investment was being undertaken; and new and enticing markets were beckoning in eastern Europe.

Yet in a little over a year the mood of the paper industry has changed almost beyond recognition.

As Mr Hartwig Geginat, president of the European Paper Institute, told a recent industry conference in London "the year that began with great promise ended with disillusion and disappointment".

The talk is almost all gloomy. The industry's vast paper machines built at enormous expense are running at slow speeds; capacity is being cut; profits are tumbling alarmingly; and companies are shedding workers.

What has brought about this sudden change in outlook?

In part, the paper industry is suffering from one of the downturns in its trading cycles that periodically disfigure its markets.

As demand picks up at the beginning of a trading cycle, the paper companies reap great profits which are then invested in building additional capacity. As supply begins to outstrip demand the market sours and the industry struggles on until the imbalances in the market correct themselves and the upswing begins again. At present, the market is bumping along the bottom. There are, as yet, few signs that the upturn is on the way.

Yet there are also those who argue that this latest downturn represents more than just a cyclical phenomenon and that the industry has crossed an irrevocable threshold.

The 1990s, they argue, will represent a far more challenging decade as the industry is beset by problems from many sides. They can be listed as follows:

● The environment. Whether the industry likes it or not, environmentalism is here to stay. Although the pulp and paper industry has done much to combat its image regarding the environment it still faces considerable pressure from consumers to change its ways. Those companies that are unwilling to evolve, or simply cannot afford to, will suffer mightily in the coming years.

The environmentalists are not only challenging how forests are managed and what production technologies are used in producing pulp and paper but they are also questioning the product itself and calling for reductions in consumption levels. For paper makers, this raises the frightening spectre that the unwritten rule that links paper consumption increases with the general rise in GDP may be broken.

● International trade. Earlier this year the US International Trade Commission began investigating several European coated groundwood paper companies after receiving complaints from the American Paper Institute about alleged unfair pricing practices. This has enraged many European paper companies who are suffering from the downward pressure on prices caused by the import of surplus paper capacity from the US producers.

Some US companies have expressed gripes about the restrictiveness of other national markets, particularly the Japanese. The threat of protectionism looms.

● Cost structures. Some of the traditionally strong paper producing countries will face great pressure in the coming years to compete on equal terms because of the high cost structures that prevail in their domestic markets.

In particular, the Swedes and the Finns are grappling with the high costs of raw materials, energy and labour although both countries look as though they are over the worst of their troubles.

Some lower cost countries, such as Chile and Brazil, are beginning to make an impact in the global market and this process will surely accelerate. Chile has three paper machines coming on stream this year. Eastern Europe may also prove to be a locus of low cost competitive manufacturing in the coming decade.

Sir Adam Ridley, a director of Hambros Bank which has been appointed to help privatise the Polish industry, says: "If you have good forest resources, low costs, and high potential for domestic demand, then you have great growth prospects."

● Over-capacity. The extent of the investment by the paper companies in adding new capacity in recent years may well haunt the world industry for some time to come as it has served to deepen its cyclical troughs. In the next two years the pulp market will add nearly as much capacity as it has in the previous decade with a consequent unpredictable effect on prices. Even the *highly-rational Japanese have* been suffering as a result of overly-aggressive investment.

The new mills and machines that have recently been built are enormous in scale – the workers move around them on bicycles or scooters – and the addition of one machine for a particular grade of paper can immediately affect world prices for a product. A modern machine running at full pelt produces enough paper in a day to stretch from Sweden to Sicily.

One of the challenges of the future will be to try to match investment levels more closely to demand requirements in order to avoid a continuation of these self-inflicted wounds.

● Consolidation. A greater consolidation of the industry is bound to follow the waves of restructurings and acquisitions that dominated the sector in the 1980s. Companies from across the world have been widening their horizons and Europe in particular has become the focus of their activities.

The Swedes have been particularly active and in the past few years and their companies across a range of industries have invested more in the European Community countries than either the Americans or the Japanese.

Mr Bo Wergens, head of the Swedish Pulp and Paper Association, says: "The Swedes have been early Europeans. We regard Europe as our home market because of its geographical location, tradition and culture. It has become the forum for internationalisation and the players in Europe have to be very competitive."

Yet this process of consolidation will be closely scrutinised by the competition authorities in Brussels. The European Commission's investigation into alleged price-fixing agreements in the carton board sector is an indication of how closely they intend to patrol their beat.

All of these issues will create a far more complicated and *challenging environment for* the world pulp and paper industry in the 1990s. The winners that are likely to emerge are those that can demonstrate financial strength, flexibility and a above all a determination to understand and satisfy the desires and needs of their customers.

Mr Dermot Smurfit, joint deputy chairman of the Irish paper and packaging company, Jefferson Smurfit Group, predicts: "On quality the basic proposition will be that a pulp, a paper or a package performs first time every time and this will be a prerequisite for doing business in the future."

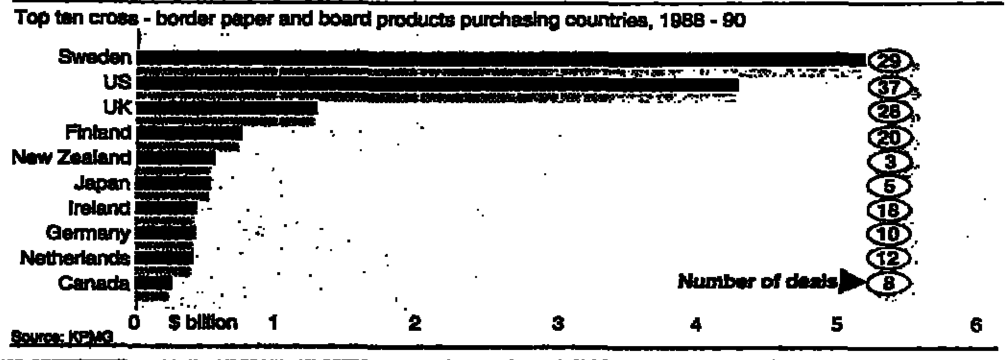
How quickly the industry will recover its confidence will depend upon the speed and extent of the economic revival in the world's recession-hit markets. But doubtless demand will pick up again, profits will return and confidence will be restored. The peculiar problems of the early 1990s may pale as previous perceived threats – such as the development of electronic communications – have done. It is now hard to imagine a paperless office; even harder to conceive of a paperless society.

CONTENTS

North America: excess capacity in the US and a painful period of transition for Canadian groups .... Page 2
Sweden: remains dominant in Europe as SCA takes a breather after a hectic period of acquisitions .... Page 3
Environment: losing the green public relations race
Finland: struck from all sides .... Page 4

Purchasers

Top ten cross - border paper and board products purchasing countries, 1988 - 90



Source: KPMG

■UNITED STATES: in the throes of a downturn

Excess capacity in softer markets

THE US paper and pulp industry is in the throes of a severe economic downturn which could lead to a substantial shake-up in the sector, involving takeovers, mill closures and changes in product mix.

To a considerable extent the problems are those of the sector's predictable economic cycle: new mills were planned during the golden years of the mid to late 1980s, when margins were strong, but are now leading to excess capacity just when the market has softened.

Since paper mills get a very large percentage of their operating profits from the last 10 percentage points of production, their earnings are vulnerable to relatively small changes on both the supply and demand side.

A survey last December by the American Paper Institute, an industry umbrella body, found that 18 new paper machines were expected to come on stream between this year and 1993, adding some 7.5m annual tons of capacity, a rate of increase of some 2.9 per cent a year, to take the total US paper and paperboard capacity to 91.5m tons.

Yet this comes as demand is weak – particularly in paper grades: in the first quarter of this year US paper grades production was 3.7 per cent down on the same period of 1990.

The result has been strong downward pressure on prices and earnings, and the problems will be exacerbated over the coming months if the dollar keeps on strengthening. The weakness of the dollar has given a strong lift to US paper exports in recent years, and while this trend continued in early 1991 – paper exports were up 11 per cent and paperboard 22 per cent in the first two months – the recent sharp rise in the US currency seems certain to have halted the trend.

The impact of all these factors showed up in first quarter earnings.

While combined sales of 24 publicly-quoted US paper companies fell just 4 per cent on a year before, after-tax profits were nearly halved. With the exception of Kimberly-Clark, which has a niche position in the buoyant tissue market, the leading US companies all announced steep declines in earnings.

Mr Gary Palmero, an analyst at Oppenheimer & Co, estimates that US forest products shares are now at their biggest discount – over 50 per cent – to book value since 1957.

For some companies the perennial problems of the economic cycle have been exacerbated by the heavy debt loads they took on in the 1980s, both for capital investment and for acquisitions.

One of most heavily geared is Georgia-Pacific, the world's largest manufacturer of paper and wood products, which took on an additional $5.4bn in debt to fund its purchase early last year of Great Northern Nekoosa.

With the benefit of hindsight, Wall Street has been questioning the timing of that bid, given that it was made right before a cyclical downturn, making it both harder to service the debt and to get good prices in asset sales. Georgia-Pacific has cut group debt through an asset disposals programme to $6bn, or 62 per cent of capital, but analysts say it could be a long time before the group reaches its target level of 45 per cent.

In sharp contrast to Georgia-Pacific, which has been reducing its presence in Europe through its debt reduction programme, stands International Paper, another of the big US companies which been moving aggressively to build up European assets over the past two to three years in the hope of benefiting from the European Community's 1992 initiative.

Amid the recession, the industry is having to cope with growing environmental pressures. These take three main forms.

First, companies are having to spend more and more on capital equipment to meet more stringent emission control standards. Over $1bn is estimated to have been spent in both 1989 and 1990.

Secondly, the US Fish and Wildlife Service recently designated 11.6m acres of the Pacific North-west as habitat of the endangered Northern Spotted Owl.

The result could be severe logging limits on those acres, pushing up the price of wood chip and lumber for local producers.

Thirdly, companies are under strong pressure to use recycled paper in the manufacturing processes, particularly newsprint.

The recession and environmental pressures are affecting different parts of the industry and different companies in markedly different ways.

One of the sectors hardest hit by the recession is the US construction industry, and this has had a knock-on effect on the solid wood side of the industry, which has suffered a slump in demand.

Market pulp, the raw material used to make paper, has seen its price drop through the floor: northern bleached softwood kraft, the bellwether variety of pulp, has dropped from $840 a metric tonne in 1989 to a list price of between $600 and $700, although analysts believe it is being discounted to about $580 and the price could go lower still.

Linerboard, used for boxes, has so far weathered the downturn fairly well, with prices dipping from about $440 a ton at the peak to about $350 now, still well above the cash costs of production.

Newsprint has been hit hard by a downturn in advertising which began affecting the north-east of the US last year and is battering California – all at a time when manufacturers face another year of new capacity coming on stream. The coated paper market has been hit by the advertising downturn and new capacity coming on stream.

Analysts suggest that some of the financially healthier companies may start to pick off weaker brethren over the next year or two.

Martin Dickson, New York

World pulp consumption (000 tonnes)	1982	1983	1984	1985	1986	1987	1988	1989
	1,489	1,855	1,821	1,862	2,083	2,326	2,502	2,577
UK	14,498	15,310	16,192	15,939	16,789	17,556	18,287	18,823
EC	11,746	12,325	12,631	12,785	13,988	14,065	14,302	14,237
Eastern Europe	39,751	41,836	44,809	44,915	47,209	49,000	50,873	52,078
Total Europe	11,424	12,589	13,830	13,472	14,048	14,977	15,581	15,528
Canada	45,198	48,216	51,184	49,753	51,837	53,990	55,037	55,130
US	56,622	60,805	64,994	63,225	65,885	68,966	70,618	70,658
North America	19,326	20,182	21,311	23,080	24,105	25,816	28,253	32,759
Asia	1,561	1,439	1,577	1,762	1,732	1,756	1,900	2,098
Australasia	4,478	4,759	5,886	5,855	6,178	6,719	6,837	6,539
Latin America	1,399	1,420	1,312	1,320	1,592	1,983	1,789	1,871
Africa								
World total	123,138	130,541	139,889	140,157	146,702	154,252	160,273	165,804

Source: Pulp & Paper International Fact & Price Book

■PULP: contemplating the bottom of the cycle

Another journey on the roller-coaster

HOPES that the pulp business may have escaped its traditional boom-and-bust cycle evaporated rapidly when the price fall began back in early 1990.

In April this year, there was a shaky attempt by producers to halt the fall. They hoped it would mark the bottoming out of the cycle, rather than a little hiccup on a continuing downward path.

Measured by price, the market in Europe, which is a reliable indicator for others in this international market, peaked at the end of 1989. The CIF price at that time for Northern Bleached Softwood Kraft (NBSK) pulp, the prime grade, reached DM1,630 per tonne for pulp made in Europe, mostly in Finland and Sweden, and $840 per tonne for imported North American shipments. These prices were, respectively, 55 per cent and 75 per cent above the prices at the end of 1986, when the price rise began.

Since then, the price of European NBSK pulp has dropped to about DM1,050-1,100 per tonne, down 35 per cent, and the US equivalent to about $650, a fall of about 23 per cent. This swift decline is generally reflected in the other grades of market pulp.

Such a roller-coaster market has a large effect on non-integrated woodfree paper makers in Europe. The cost of this pulp, an essential raw material, accounted for 60 per cent of the sales price in 1986. By early 1990 it had reached 80 per cent but by the first quarter of 1991, it was back at 65 per cent. It is not always possible for paper makers to pass on these price changes as rapidly as they happen.

The important questions are:

● Why did it happen again?

● When will the market price bottom out – or has it?

The answer to the first question can be split into two. The traditional answer is that the regular but rapid cycle of demand and supply is largely responsible. In the late 1980s, growth in paper demand was setting record levels in many parts of the world so those paper makers who rely on an outside source of high-quality pulp needed more. Conversely, plans by market pulp producers to invest in new production capacity were few, and most mills were running full. Non-integrated paper mills were crying out for pulp. This tight market drove up prices.

As well as this traditional answer comes the relatively new one: the increasing importance in recent years of the rate of exchange between the US dollar and other leading currencies. The prime reason in Europe why the price of European-produced pulp increased less and fell more than US imports during the current cycle was the value of the US dollar. There were several quarters where Europeans had to reduce their prices solely because the dollar's value had fallen.

In the US, prices increased in a similar way from about $480 per tonne for NBSK pulp delivered in the US at the end of 1986, up to the high of $830 by mid-1989. As in Europe, US suppliers managed to hold this top US price through to the middle of 1990 before the decline began. It stands at about $625, 25 per cent below its peak.

A new development is the increasing demand for greater recycled fibre content in paper

The dollar's value is still the important factor. It was on the back of a strengthening dollar that some top European producers separately announced in mid-April NBSK pulp price rises which averaged DM50, bringing the price to DM1,100.

The success of any price rises is as yet unclear, though currency rebates being offered by some Canadian NBSK pulp suppliers – again due to the value of the dollar – will not help stabilise the price.

It is in this uncertain state that the question of when the market will bottom out is being asked by anxious paper makers as much as by pulp suppliers. The prospect of a great increase in the supply of market pulp has diminished, at least in the minds of most pulp buyers and sellers. This is partly because there have been some postponements of expansion plans as a result of the poor market and declines in overall company performance. However, there is still a lot of new tonnage on the way, particularly hardwood pulp from South America.

Notable among the postponements of capital investment was the decision in December 1990 by Sweden's Stora to postpone indefinitely its plan to raise bleached eucalyptus kraft pulp capacity at its Celbi subsidiary in Portugal.

Even more significant is the likelihood that of three well-known plans for new pulp mills in Finland, only one, planned by Metsä-Botnia at the Rauma mill, is likely to go ahead in the short term, so effectively removing about 500,000 tonnes a year from the industry's new capacity list.

US production of market pulp will continue to grow and there will be more available for export. According to Mr W.C. McClelland, president of Union Camp, US market pulp consumption is projected to grow by less than 1m tonnes between 1990 and 1995, with only 60 per cent of supply from domestic sources. This modest growth, plus new capacity means more for export. Mr McClelland expects US pulp exports to continue to grow at over 3 per cent annually, with western Europe still the largest market, followed by Japan.

The overall short-term view of this new capacity growth worldwide, particularly of the main kraft pulp types, must be that there will continue to be some degree of oversupply. In spite of the project postponements. On the other side, there is little prospect that the growth in demand for paper is going to improve significantly. Norscan pulp mill stocks are at a level usually associated with a weak market. Taking these into account, there seems little likelihood of significant price improvement in 1991.

They hoped it marked the bottoming out of the cycle, rather than a little hiccup on a downward path

However, prices have fallen less this year compared to the falling prices of 1990. From that point alone, the bottom appears to have been reached. If the dollar continues to strengthen, this may be an opportunity for European suppliers to increase prices in European currencies further – though it is equally likely that the US will offer more currency rebates to make up for a stronger dollar.

There's no reason to believe that the tradition of swift cycles in the pulp business has changed. But it looks as though it will be well into 1992 before any steady improvement can be expected.

There are some other underlying trends. The period of acquisition and merger has reduced the number of independent market pulp producers. There are more pulp mills which have, within their own group, paper mills which want their pulp. This so-called tied tonnage is not true market pulp, and it can be a useful way of tieing up production in times of trouble. Some companies, such as South Africa's Sappi and Mondi, have invested in European paper producers partly because it secures a supply for their pulp.

The cost of entry to the pulp business is now higher than ever. There are stringent environmental restrictions and regulations to be met, particularly in the northern countries. A kraft market pulp mill has to be large to be viable and the capital cost is high.

However, there are still going to be newcomers, both in South America and Asia, especially Indonesia led by Indah Kiat based in Sumatra.

Another new development is the increasing demand for greater recycled fibre content in paper, particularly printing paper and paper used for stationery, which are prime users of market pulp. At present, the quality of NBSK, particularly its strength, make it an essential ingredient for many of these types of paper. But its proportion may diminish and new technology may allow greater use of recycled fiber.

Another new factor is the arrival of increasing quantities of a different market pulp, bleached chemi-thermomechanical pulp, thankfully shortened to BCTMP. About 12 new BCTMP lines or mills will have started by 1992 in Canada. However, bleached kraft pulp remains the most common market pulp – about 75 per cent of all chemical market pulp.

The small size of BCTMP mills is also a reflection of another longer-lasting trend or wish: the continuing search for a new chemical process (environment friendly of course) to make sufficiently strong pulp on a smaller scale.

At this lower capital cost, some paper mills could install such lines alongside their own mills, so partly replacing expensive market pulp. There are some candidate processes being promoted, but there has been no sign of a breakthrough.

Peter Sutton

Canadian pulp and paper shipments (000s of tonnes) by grade

Grade	1989	1990 (p)	1991 (f)	% change 1990/91
Paper & paperboard	16,520	16,467	16,745	1.7
newsprint	9,607	9,075	9,235	1.8
printings & writing paper	3,204	3,588	3,675	2.4
other paper & board	3,709	3,804	3,835	0.8
Pulp exports	8,347	7,686	7,870	2.4
Total	24,867	24,153	24,615	1.9

(p) = preliminary (f) = forecast. Source: Canadian Pulp and Paper Association

Canadian pulp and paper shipments (000s of tonnes) by destination

Destination	1989	1990 (p)	1991 (f)	% change 1990/91
Canada	4,886	4,703	4,665	-0.8
US	12,993	13,131	13,235	0.8
Overseas	6,988	6,319	6,715	6.3
Total	24,867	24,153	24,615	1.9

(p) = preliminary (f) = forecast. Source: Canadian Pulp and Paper Association

■CANADA: an industry holds its breath

Painful period of transition

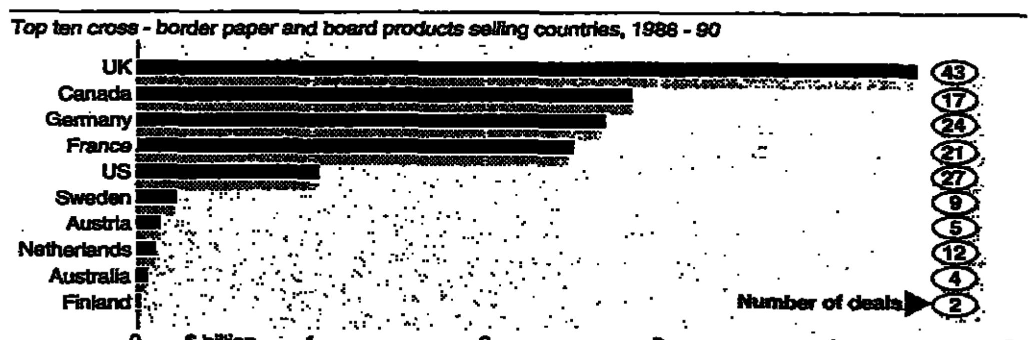
THE Canadian pulp and paper industry is not only in the depths of a severe cyclical recession but also struggling to overcome a steady erosion of its long-term competitiveness.

"No doubt there are many people in our industry holding their breath, waiting for the recession to end, waiting for things to be the same again," said Mr Arkadi Bykhovsky, president of Noranda Forest Sales, at a recent conference in Vancouver. "But it's different now. Things are changing."

Similarly, Abitibi-Price, one of the world's biggest newsprint producers, warned in its latest annual report that "the industry is going through a painful period of transition which will transform it permanently."

Sellers

Top ten cross - border paper and board products selling countries, 1988 - 90



Source: KPMG

Perhaps the most fundamental adjustment is that demand is shifting from the old, high-quality timber which is the hallmark of Canada's forests to cheaper, faster-growing woods from warmer climates which are equally suitable for lower-grade pulp and paper, as well as the mushrooming market in engineered wood products.

The upshot is that Canadian producers' competitiveness has steadily declined in the past decade. Their newsprint output of 9.1m tonnes in 1990 was 60 per cent of total North American production, down from 64 per cent in 1988.

While Canada still accounts for more than a quarter of the world's market pulp capacity, operating rates of Canadian mills have slipped from 93 per cent in 1989 to 82 per cent last year. The Canadian Pulp and Paper Association expects a further drop to 78 per cent this year.

The heart of the Canadian companies' problem is that they have a higher cost structure than many of their foreign rivals. Their workforce is more heavily unionised. Many of their forests are less accessible and the technology of many pulp mills is outdated.

With demand for recycled newsprint rising, Canadian mills have the added disadvantage of being further away from the urban centres which provide raw material in the form of old newspapers.

According to Price Waterhouse, the cost of producing kraft wood pulp in eastern Canada is about one-third higher than in the southern US, where trees grow faster and wages are lower. Producers along the British Columbia coast, where access to forests is especially difficult, have an even wider cost disadvantage.

The heart of the Canadian companies' problem is that they have a higher cost structure than many of their foreign rivals

Tighter environmental regulations are imposing a heavy financial burden on the industry. Canadian pulp and paper mills have been slower than their US counterparts in *installing secondary treatment* facilities for their effluent. The British Columbia Council of Forest Industries estimates that mills in the province will spend just over C$1bn between 1989 and 1993 to virtually eliminate dioxins and bring down the organo-chlorine content to 2.5kg per metric tonne of pulp.

MacMillan Bloedel estimates that it would cost C$300m for its pulp mills to meet environmentalists' demand of an effluent discharge of 1.5 kg for each tonne of pulp produced.

The recession has highlighted the bind in which the Canadian industry finds itself. With their high costs, the producers' top priority has been to try and hold up prices. In their efforts to do so, almost all have been forced to cut output by working shorter hours, or closing pulp mills and newsprint machines.

The battle to maintain prices has been a *forlorn one in the* face of the severe recession and ever-rising capacity from projects begun during the good years of the late 1980s. Under pressure from their customers, Canadian producers were recently forced to rescind a 5 per cent rise in newsprint prices which was due to take *effect last January*.

Earnings have slumped. Abitibi-Price earned a meagre C$1.8m from newsprint operations last year, down from C$76.5m in 1989 and C$207m in 1988. Mr John Johnson, analyst at Richardson Greenshields in Toronto, forecasts losses this year at most of the big Canadian forestry companies, including Abitibi, MacMillan Bloedel, Canadian Pacific Forest Products and Fletcher Challenge Canada. Noranda Forest, Macblo's controlling shareholder, expects a 1991 loss similar to last year's C$95m.

In the short-term, the industry is crossing fingers for an upturn in demand and a weakening of the persistently strong Canadian dollar.

It is cutting costs by seeking wage concessions from workers and closing down its least efficient operations. Forestry workers in British Columbia are asking for no increase in real wage rates when their contract expires later this year.

The companies are increasingly turning attention to their longer-term viability. Their strategies vary. MacMillan Bloedel, for example, is contemplating further acquisitions in the US. Fletcher Challenge Canada is seeking an equity partner for its large Crofton pulp and paper complex in British Columbia, and is putting some of its wood products operations up for sale.

Abitibi-Price sees the future in high-quality, high-margin products, including groundwood paper used for forms and directories. A recent federal government report on the state of the industry suggested that the future lies in a greater emphasis on value-added products and a move away from exploiting virgin forests towards more productive plantation forests.

Bernard Simon, Toronto

■SWEDEN: remains dominant in Europe in spite of a drop in profits

Unruffled by the economic gloom

ALTHOUGH Swedish pulp and paper companies saw their profits drop on average by 35 per cent last year, the bad economic news should not obscure recent developments that will strengthen the industry's dominant position in Europe.

Sweden's Social Democratic government has removed several long-term threats to the industry. The most significant was its decision to abandon plans to phase out nuclear power in the mid-1990s. As the country's biggest industrial user of electricity, forestry companies feared that their power costs could double if nuclear abolition went ahead.

The probability that the non-socialists will form the next government after September's elections should improve prospects for the retention of nuclear stations beyond the 2010 deadline for a complete nuclear shutdown established by parliament a decade ago.

The proposed environmental tax on chlorine emissions threatened to increase the industry's production costs. But the government dropped the proposal after the industry successfully argued that it was undertaking a large-scale investment programme to reduce the use of chlorine during the production phase. The cleaner manufacturing processes being introduced will allow pulp and paper mills to meet the lower emission levels for chlorine mandated by the government as a substitute for the chlorine tax.

Sweden's expected application for membership in the European Community removes fears that the industry would face potential barriers in the internal market after 1992. The country's previous refusal to join the EC was one factor behind the rush to acquire production facilities in Europe during the last few years.

The Swedish forestry sector is not only benefiting from these political changes. The economic outlook has brightened in the last few months. The gathering strength of the dollar has improved the competitive position of Swedish pulp producers since US producers had taken advantage of the weak dollar to make inroads into the European market.

Although Swedish forestry companies have cautiously refrained from making forecasts for 1991, earnings could be better than analysts originally expected. One optimistic indication is that Stora, Europe's leading pulp and paper producer, managed to halt its decline in profits during the fourth quarter of 1990.

The market upturn is sorely needed as Sweden's leading forestry companies face strained balance sheets due to a series of acquisitions both at home and abroad that have restructured the industry in the past year.

Stora has emerged as the world's third largest forestry company with its DM4bn takeover of Feldmühle Nobel (FeNo) a year ago. The merger of the two companies, which had co-operated for the last two decades in managing pulp and paper mills in Sweden, was significant for Stora besides increasing its size with sales of SKr62bn and a workforce of 69,700 persons.

The addition of FeNo, which has an annual paper production of 2.3bn metric tonnes and is Europe's largest maker of printing paper and cartons, transformed Stora into the world's biggest producer of newsprint and fine paper. The deal gave Stora a solid position in the manufacturing of lightweight coated magazine paper, a product area in which it was previously weak.

While the FeNo acquisition upgraded Stora's product line, it eliminated its dependence on the cyclical external market for sales of its pulp. As Europe's biggest buyer of pulp, FeNo provides a captive market for Stora, which will become a net buyer of pulp. The resulting structural integration and balanced product mix is expected to provide co-ordination gains of SKr600m to SKr800m annually, according to Mr Bo Berggren, the Stora president.

Stora has gained through FeNo an important manufacturing and marketing position in the heart of Europe. It had previously lagged behind other domestic rivals, including SCA and MoDo, in establishing a presence on the continent. Prior to FeNo, Stora's main facilities in the EC were limited to its eucalyptus pulp mill in Portugal and a fine paper producer, De Forenede Papirfabrikker, in Denmark.

In spite of Sweden's intention to join the EC, Swedish forestry companies need manufacturing facilities in the centre of the continent in order to be close to consumers as competition intensifies in the post-1992 internal market.

The acquisition of FeNo increased Stora's debt burden by SKr20bn to Skr31.7bn. Stora is selling several subsidiaries to finance the purchase, including the tissue producer Finess to Duni, a Swedish paper group, as well as parts of the Tarkett flooring business. It is also seeking a German buyer for the engineering operations of FeNo.

John Burton

Top 10 cross-border acquisitions 1988-1990

Buyer	Target	$m	Year
Stora (Sweden)	Feldmuehle (Germany)	2,400	1990
Stone Container (US)	Cons-Bathurst (Canada)	2,189	1989
Svenska Cellulosa (Sweden)	Reedpack (UK)	1,832	1990
Pembridge (US)	DRG (UK)	1,098	1989
Wiggins Teape (UK)	Arjomari Prioux (France)	966	1990
Fletcher Challenge (NZ)	UK Paper (UK)	480	1989
Daishowa Paper Manufacturing (Japan)	Reed Int. North American paper units (Canada)	479	1988
Svenska Cellulosa (Sweden)	Peaudouce (France)	350	1988
Feldmuehle Nobel (Germany)	Papeterie Beghin-Corbehem (France)	335	1989
International Paper (US)	Aussedat Rey (France)	320	1989

Source: KPMG

■SCA: lull in a hectic period of acquisitions

Expand or become a target

SVENSKA Cellulosa Aktiebolaget (SCA), one of Sweden's leading forestry companies, is pausing for breath after a hectic period of expansion that began just over three years ago. But many observers do not believe it will sit on the fence for very long.

The company's president and chief executive officer Mr Sverker Martin-Löf makes no secret of his wish to see SCA continue to strengthen its market position with a balanced high value product strategy centred on western Europe that has transformed the company from being essentially a producer of raw materials into a dynamic and specialist paper group. "You simply have to expand or you become a target for takeover yourself," he explains.

Financial analysts are concerned that in 1990 SCA bit off more than it could chew with its Skr5.884bn acquisition of Reedpack, the UK paper and packaging company and the purchase in December for SKr1.4bn of a 22 per cent voting stake and 16 per cent of the equity in MoDo, Sweden's third largest forestry group.

In 1990, SCA's pre-tax earnings fell – but opinion differs by how much. SCA argues they dropped by 22 per cent to SKr2.127bn, blaming overcapacity and price competition in the company's consumer business markets for the setback. Independent analysts, however, argue the profit decline was much greater.

James Capel argues SCA should not have included the SKr333m profit made from its disinvestments in its hygiene and packaging areas in its calculation. If the company had done that the fall would have been 34 per cent to SKr1.794bn.

Mr Martin-Löf will not reveal any prognosis for SCA's financial performance this year until the annual shareholders meeting in June but it seems likely that the 1991 profit result, however calculated, will be down on last year. It is likely to be a more modest decline than in 1990 and presages a further rise in profitability next year according to both James Capel and Kleinwort Benson Securities in London.

It is true that SCA's finances weakened last year. High investment needs and the Reedpack and MoDo share acquisitions had to be met and so did the new LWC machine at its Ortviken plant in Sweden. Net debt increased by SKr13bn in 1990 which cut into the company's debt-equity ratio and interest cover.

Interest costs rose to SKr1.35bn, an increase of SKr500m while interest cover dropped to 2.6 per cent compared to a 4 per cent company target. Mr Martin-Löf argues that SCA's financial position continues to be satisfactory.

Last year the company had a 42 per cent ratio of shareholders' equity to total assets which included forest and power supply values compared with 55 per cent in 1989.

Moreover, SCA has embarked on a divestiture policy to sell off parts of its acquired units that fall outside its core business areas. Last year the company made divestitures totalling SKr1.5bn while preliminary agreements that have been reached account for a further SKr2.2bn of which SKr500m will be obtained by the end of 1993.

What is impressive about SCA is the clear-sightedness of its strategy which in only a short period of time has transformed the company. "We have developed a balanced high value core business and limited ourselves to growth inside the western European market," explains Mr Martin-Löf.

The company has concentrated its activities into what are administered as three distinctive highly refined product business areas – hygiene goods, packaging and graphic paper. The strategy has sought to establish economies of scale, to develop greater value added products and to spread the risks to avoid the consequences of the traditional cycles of the pulp and paper industry. Moreover, SCA has become much more consumer market than producer driven.

It was in October 1987 that SCA announced its intention to raise SKr1bn to acquire strategic companies in packaging and hygiene products through a new share issue. The first purchase came in 1988 when SCA's hygiene sector Molnlycke acquired Peaudouce, the leading French disposable nappy producer for FFr1.962bn, making the company Europe's largest producer of fluff-based hygiene products in diapers, as well as paper to deal with menstrual hygiene and adult incontinence.

In July of that year Italcarta, Italy's largest corrugated board and recycled paper products group was purchased for SKr500m by SCA and followed up only three months later with a SKr1bn majority shareholding in Laakirchen, an Austrian manufacturer of printing paper and hygiene products. In 1988 SCA spent SKr3.4bn to acquire foreign companies with a combined sales of nearly SKr7bn and 6,600 employees.

Last year, the purchase of Reedpack turned SCA into Europe's leading transport packaging company with a 42 per cent growth in its sales as a result to SKr7.799bn.

As a result, the packaging business area is roughly equal in annual sales to the hygiene product activities at about SKr12bn. However, the company's graphic paper production has a substantially lower turnover figure. Hence, the potential importance of last December's acquisition of a large slice of MoDo's stake.

Mr Martin-Löf insists SCA is not interested in taking over MoDo in a grand merger. What he wants to do is to find ways of bringing together the graphic paper business areas of the two companies. If this does happen it would bring the third leg of SCA's core business up to balance with its other two.

He believes there will be moves for greater concentration in the structure of the European forestry industry during the 1990s and Sweden will not be excluded from that process. Whether this will mean the full integration of MoDo into SCA is unclear.

The company faces some real difficulties. In its hygiene division the diaper price war with Procter and Gamble has hurt with a 14 per cent drop in operating profit while in packaging SCA's kraftliner production was hit badly by the weakening US dollar and lower prices although a good performance from test liner and corrugated board.

There was also a 37 per cent drop in the company's graphic paper profits – mainly due to heavy costs incurred in its Swedish operations with the expense of the new LWC project at Ortviken, lower pulp prices, stagnant newsprint prices and reduced capacity.

Last year's profits dip and the uncertainties about 1991 cannot disguise SCA's success in its strategy of balance. The company has become increasingly diverse and selective over the past 10 years or so, reflecting the sophistication of an industry that has been transformed through changing consumer demand and technological breakthroughs.

Mr Martin-Löf is proud of SCA's increasing production of recycled fibre newsprint which accounts for about half the company's annual output, making SCA the second largest producer from waste paper in Europe. But it should not be forgotten that the company retains an estimated 1.8m hectares (4.6m acres) of productive forest land, mainly in northern Sweden with a sales figure of SKr3.9bn last year and an operating profit of SKr481m.

This does not mean that SCA will continue to be based in Sweden. Last year it moved the headquarters for its packaging business to Brussels. Mr Martin-Löf says he would like to move the company's headquarters away from Sundsvall in northern Sweden as soon as possible and he does not mean to Stockholm.

SCA is thinking and acting in a transnational way. Indeed, as SCA becomes even more sensitive to the changeability of its consumer markets, it will not be surprising if it does not say goodbye to Sweden at some point in the 1990's.

Robert Taylor

Growth of SCA since 1986 (SKr bn)

	1986	1987	1988	1989	1990
Profits	1.399	2.050	2.603	2.712	2.127
Sales	15.217	15.679	20.850	24.853	31.122

Martin-Löf, left, with Peter Williams, Reedpack chief executive

■DISTRIBUTION: groups widen their horizons

A relentless drive towards the end-users

AT one time the world's big paper companies were content to cluster their activities at the commodity end of the market. Located near the forest-rich regions in North America and Scandinavia such companies made lucrative, cyclical livings from manufacturing mainly commodity grade papers and selling pulp to specialist paper producers.

No more. In the past decade most of the big paper companies throughout the world have staged a relentless drive towards the end-users of their products becoming more vertically-integrated in the process. Both in terms of product range and geographic coverage these paper companies have substantially broadened their businesses and have begun to discover what the ultimate consumer thinks and wants.

Mr Bernt Löf, chief executive of MoDo, the Swedish paper group, says: "The people that will suffer are those who have not realised that the pulp and paper industry is no longer solely a production-oriented industry. It has to be a marketing industry."

One of the most active battlefields in this process has been Europe, which has been swept by a wave of acquisitions in recent years. Much of this consolidation has been conducted by the Europeans themselves, but several paper companies from outside the European Community have moved into the region in attempts to diversify their regional exposure, flatten their industrial cycles, and build markets close to rich European consumers.

So, for example, in recent years Stora, the Swedish company which forms Europe's biggest paper group, has bought Feldmühle Nobel of Germany. International Paper, the large US corporation, has bought Aussedat-Rey, of France, and acquired a majority stake in Zanders Feinpapiere, of Germany.

Fletcher Challenge, the New Zealand conglomerate which owns paper operations in North and South America as well as Australasia, has bought UK Paper, a fine paper company. SCA, another Swedish group, has strengthened its position in transport packaging through the acquisition of Reedpack, of the UK.

However, moving into new markets and countries is not without risk. Many companies are burdened by the debts they took on to finance their acquisitive growth and in some cases management teams have been fully stretched by the complexities of working in different countries with varied cultures and working practices.

Consumer-related markets require very different skills and disciplines to those required in the commodity sector and some companies have received brutal lessons in the subtler arts of marketing from more experienced competitors. The fearsome competition that Molnlycke, SCA's subsidiary, has faced in the diaper market from Procter & Gamble, the US consumer products group, is just one example of the dangers of straying too far outside a company's area of expertise.

Yet one of the most intriguing industrial groupings to emerge from the recent round of restructuring has been the merger between Wiggins Teape Appleton, of the UK, and Arjomari-Prioux, of France, which was completed at the end of last year.

The combined company, to be named Arjo Wiggins Teape, has strong skills in manufacturing high value-added specialist papers but only has a limited investment in forestry and pulp operations. For this reason, the company decided to move further away from the commodity end of the market towards specialist sectors where it could focus its sales efficiently through a network of controlled paper merchants.

As Mr Stephen Walls, chief executive of the new company, explains: "When we looked at the strategic opportunities that we had to expand our business we decided to go down-stream to seek a closer relationship with our customers. If you want to expand your product range it is important to have control of that distribution."

The combined company runs Europe's largest paper merchant with leading positions in the UK, French, Irish and Belgium markets and a strong presence in Spain, Italy, the Netherlands and Finland. This network sells over 1m tons of paper a year, of which 35 per cent comes from AWT's group companies.

Mr Walls believes that this distribution network gives the company great strengths in terms of gaining intimate knowledge of the customer's needs and securing outlets for its products. This year, for example, AWT will have few difficulties in being able to sell products made at its Soporcel mill in spite of severe over-capacity in its sector.

Two-thirds of western Europe's paper merchants are owned by paper makers but the overall figure conceals some distinct regional variations. For example, in France almost all paper sales are made through merchants owned by the big paper companies compared to 2 per cent in Germany.

The highly attractive German market may be difficult to consolidate because nearly all the big paper distributors are family-owned merchants but greater efforts will be made to prise the market open over the next few years.

The other main plank in AWT's strategy is to promote the use of branded products, such as its Conqueror range of business stationery, which can attract customer loyalty and command premium prices. But Mr Walls believes that "branding is something that is not particularly well understood or well used in the paper industry". Paper companies will spend much effort in the next few years in creating and developing branded products but these will crucially depend on good quality, broad product ranges, and consistent levels of service.

As Mr Walls says: "You have to support a brand and provide a sustained message over a considerable period and that applies whether you are selling chocolate bars or bits of paper."

John Thornhill

Eucalyptus is one of the leading sources of raw materials for quality paper

■ENVIRONMENT: losing the green public relations race

An industry that feels misunderstood

POPULAR myths about the paper industry grow like mushrooms on dead trees.

The public reads about the frightening rate of global deforestation and conjures up images of voracious paper companies hacking down tropical forests to produce mounds of newspapers and packaging materials that are then mindlessly discarded.

They learn that paper products constitute between 20 to 55 per cent of all the rubbish that is deposited in rapidly-diminishing landfill sites or burnt in incinerators and blame the industry for creating the waste. Health scares about the harmful effects of chlorine bleaching of pulp and the spread of dioxins also inflame public passions. Political pressure mounts for more widespread recycling schemes and cleaner production processes and simplistic slogans such as "Save a tree – use PVC" abound.

The paper industry has reacted to this popular environmental onslaught like a rabbit transfixed by the headlights of an on-coming truck. It rails at public ignorance and cavils at its misconceptions, but as one consultant recently told a pulp and paper conference in Leningrad: "The industry is clearly losing the public relations race."

Yet in spite of its image, the pulp and paper industry has an environmental record of which it can be proud and can muster some convincing arguments to bolster its case.

For example, in reality, less than 1 per cent of world's pulp requirements come from tropical forests; the felling is mainly due to the need for fuelwood and an increase in arable land. The vast bulk of the world's pulp needs comes from managed forests which are grown and harvested like any other crop. The only big difference is the time-scale: it takes between 60 to 120 years for pines to mature depending on the climate.

Far from eroding the world's forest resources the industry has in many countries been increasing them. The Swedes and the Finns, for example, are growing more trees than before and legislation ensures that every tree that is cut down has to be replaced.

The industry has invested heavily in introducing cleaner production technologies to eliminate harmful effluents and is striving to replace chlorine bleaching to reduce the levels of dioxins in its papers. Recycling has been promoted and waste paper has been incorporated into fresh products wherever possible. However, pulp cannot be re-used indefinitely ensuring that there will always be a demand for virgin fibres.

Although the pulp and paper industry has undoubtedly done much to clean up its act, much remains to be done to satisfy the demands of the well-informed environmental organisations which still find fault with many industry practices.

Part of the reason why these organisations pay such close attention to the paper industry is that they believe it could provide a fine ecological model which other industries could sensibly emulate.

Ms Renate Kroesa, of Greenpeace, explains: "Since paper is recyclable, bio-degradable and made of a potentially renewable resource, the pulp and paper industry has the unique potential to develop sustainable production technologies."

To this end, Greenpeace calls for improved forestry practices that encourage bio-diversity of species, a reduction in the use of fillers, coatings and inks in production processes, and the maximum use of efficient recycling systems. It demands an overall reduction in paper consumption levels – particularly among Western countries – and the development of sustainable levels of paper usage.

"Our societies at the moment think in linear terms. We have to adopt circular thinking," Ms Kroesa says.

The paper industry ignores such well-targeted criticisms at its peril.

The environmental organisations greatly affect consumer attitudes towards paper products with potentially enormous commercial repercussions.

Mr Richard Cockram, a consultant at NLK-Celpap which takes a close interest in environmental issues, says: "For the first time a paper buyer in Germany can directly influence the environmental policies of pulp mills in Canada."

He points to the example of the German retailing group, Tengelmann, which responded to scares about dangerous levels of dioxins by changing the furnishes on all its toilet tissues.

This prompted a similar response from its retailing rivals which transformed the entire German market within three months.

"Virtually no pulp or paper mill is immune from environmental legislation even if little or none is in place in the region where the mill is located, because all exports will have to meet international standards or be excluded by market forces," Mr Cockram says.

Mr Bernt Löf, chief executive of MoDo, the Swedish paper group, agrees. "The companies that do not acknowledge that environmentalism is here to stay will not survive in the future," he says.

If consumers are prepared to buy magazines which use rougher paper with lower brightness levels then companies will be forced to adapt. Those that that do will thrive; those that do not will perish.

Mr Löf believes that increasing green concerns can be a source of opportunity as well as a threat.

"I see environmentalism as a favourable factor in terms of competitive advantage," he says, pointing proudly to the fact that a quarter of his company's SKr2bn investment budget has been spent on environmental improvements over the past four to five years.

Ultimately, environmental issues concerning the production and use of paper products affect more than just the industry. They touch on how societies balance their economic, cultural and ecological priorities.

One example of how great some of these dilemmas can be is the famous case of the spotted owl, which lives in the forests of the western US.

Mr Hugh Whalen, a vice-president of Canadian Pacific Forest Products, recently told a paper conference in London that President Bush had last year signed legislation proposing that additional forest lands should be preserved for the owls' habitat after they had been declared an endangered species.

Mr Whalen claimed that the value of this forest land equated to a $85m for each pair of owls while at the same time the forest industry faced potential job losses of up to 100,000 over the next 10 years.

"Does this make sense to you?" Mr Whalen asks.

John Thornhill

Waste paper usage 1989			
Type of paper produced	UK prod (000 tonnes)	Waste consumed (000 tonnes)	Waste content (%)
Newsprint	573	326	57
Printings/writings	1,270	101	8
Hygienic papers	449	193	43
Case materials	1,198	1,162	97
Packaging boards	594	362	61
Packaging papers	105	45	43
Others	287	132	46

Source: BPBIF

■FINLAND: companies are under pressure to restructure

Struck from all sides

Kymi Kymmene pulp mill at Kuusankoski

FINNISH forest companies are being hard hit by a weak dollar and plunging pulp prices. Furthermore, The Central Association of Finnish Forest Industries (Caffi) believes that it may take between 1½ and 2 years before the situation improves.

Finnish forest companies are being struck from all sides. In the run up to the single market there is also strong pressure for Finnish forest companies to restructure and form stronger alliances between themselves. Observers got a preview of this last year when Metsä-Serla, the large forest group, took an aggressive bite of its rival United Paper Mills (UPM).

Considering the severe recession which the Finnish economy is in and the global slump hitting the paper industry, some analysts are sceptical that Finnish forest companies have the money to embark on large acquisitions. Metsä-Serla, for example, paid FM2.64bn to gain a 33.1 per cent stake within UPM.

The relaxing of Finland's strict foreign investment laws is going to become a big issue for the Finnish forest industry. Apart from a government committee presently drafting foreign investment legislation, the European Economic Area (EEA) will most likely compel Finland to do away with the free and restricted share system, which has helped to keep forest groups in friendly hands. Hostile takeovers by foreign forest companies have been impossible since foreigners cannot directly own restricted shares.

Mr Harri Piehl, president of Kymmene, the country's second largest forest group, who was recently elected as the new chief executive, believes that Finland will be obliged either through EEA or eventual EC membership to take a more lenient attitude towards foreign ownership.

"I believe that there is no reason why we should not allow an infusion of foreign capital in this [forest] industrial sector. This is providing that it is an interesting investment [to foreigners]," said Mr Piehl.

After exceptionally good years, Finnish forest groups have seen their profits fall. According to Caffi, the after-tax profits of Finland's publicly-quoted forest groups fell in 1990 by 64 per cent against the previous year.

The prospects for 1991 are gloomy. The operating margin of all Finnish forest groups with respect to turnover is expected to decline from 13 per cent in 1990 to under 10 per cent this year, according to Caffi.

The high level of indebtedness is another cause for concern. The net debt of all Finnish forest companies amounted about 60 per cent of their turnover in 1990 and at Kymmene it was much higher, reaching about 80 per cent of its turnover.

The corresponding net debt figures in Sweden and the US amount to 35 per cent and 15-20 per cent of turnover respectively, according to Caffi. Interest payments for all Finnish companies amounted to 6-7 per cent of their turnover against 3-4 per cent in Sweden and 2-3 per cent in the US.

Mr Piehl pins some of his hopes on the new right-wing government made up of the centre, conservatives, Swedish People's party and Christian League. He believes that one way of restoring investment confidence in Finland is if the new Government can put together an effective long-term economic package, as well as commission a large 1,000MW nuclear plant in the next two years.

Attempting to keep wage increases to a 1.5-1.7 per cent this year, Mr Piehl said that another important measure taken by the forest industries to lower production costs has been through raw material purchases.

Normally, Finnish forest companies agree on a yearly basis with the powerful Central Union of Agricultural Producers (Cuap) over wood prices. No such agreement was reached this year and forest companies are asking for a 15 per cent reduction in wood prices for the first half of 1991 and a further 15 per cent during this coming autumn.

Even if Caffi believes that stock wood prices are 30 per cent cheaper in central Europe than they are in Finland, national forest companies are also studying ways to buy greater amounts of wood from abroad.

The bulk of Kymmene's 1.6m cubic metres of wood came from the USSR. Another Finnish forest company, state-owned Enso-Gutzeit, which has formed a joint venture with the USSR to build a large pulp mill in eastern Finland, imported 2.2m cm of wood from the Soviet Union last year.

According to Mr Piehl, the fall in trade with Moscow has been another factor which has hit the Finnish forest industry and forced some mills to either rationalise or shut down.

The forest industry sector, which employs between 70,000 and 75,000 people, has laid off some 6,500 people and another 6,500 are working a shortened week. Some analysts believe that by the end of this year the situation may get worse: a total of 10,000-15,000 people may end up losing their jobs with another 10,000-15,000 persons working shortened weeks.

Environmental issues do not have the same impact in Finland as in central Europe. "Finns accept the fact that trees can be used for industrial and recreational purposes. Contrary to central Europe, no one talks about killing a tree in Finland," says Mr Piehl.

Metsä-Serla is another company which has been especially active in the last two years. In 1989, it sold all of its paper tissue operations within the EC to Papierwerke Waldhof-Aschaffenburg (PWA) of West Germany. Five months later, in December, Metsä-Serla lost a battle with Fletcher Challenge of New Zealand to acquire full ownership of UK Paper, the leading fine paper group. At the beginning of 1990, Metsä-Serla surprised everyone by striking at UPM.

Mr Janne Simelius, a Metsä-Serla vice-president who heads the paper and paperboard division, believes that the future success of his company hinges on a more effective distribution system to its customers as well as on producing higher quality paper.

Taking a definite step in this direction, Metsä-Serla acquired last year full ownership of Alliance Paper, a large UK paper wholesaler, and last month it purchased Hedsor, the UK's leading paperboard converting and merchanting company.

Considering Finland's distance from its main markets and the harsh reality of dwindling profits, Finnish forest companies may have no other choice but to take a more direct approach towards marketing and distribution. This service has been mostly supplied through Finnpap, a paper mill association which markets globally the paper of Finland's largest companies.

Enrique Tessieri

Results of forest groups (post-tax FMm)	1989	1990
Enso-Gutzeit	845	255
Kymmene	1,007	394
Metsä-Serla	470	-134
United Paper Mills*	636	584

Source: Confederation of Finnish Forest Industries
*does not include Rauma-Repola forestry division

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INSIDE

Young's pre-tax profits up by 9%

"We are seeing a swing back to traditional ales from traditional brewers after years of lager supremacy." Those confident words came from John Young (above), chairman of south London brewer Young & Co, at yesterday's announcement of group profits. Young beat a generally depressed beer market to increase sales 5 per cent while pre-tax profits rose 9 per cent. Page 27

Norwegian helicopter flotation

Helikopter Service, Norway's largest helicopter operator, is planning next week to float 8.7m shares to raise NKr504m ($75.2m) to fund future development. The group, which derives about 80 per cent of its annual NKr1.25bn revenues from the offshore oil industry, operates a fleet of 52 helicopters. Page 20

Bombay exchange reopens

Trading resumed on the Bombay stock exchange (right) yesterday, the first session since the assassination of former prime minister Rajiv Gandhi. Sentiment was aided by statements from the World Bank and the IMF that financial support would continue for India's economic restructuring programme. Price levels became unsettled, however, following news of Sonia Gandhi's refusal to lead the Congress Party and the main 30 share index lost some of its gains. Back Page

An exercise in slimming

MOSCOW NARODNY BANK — MNB — THE BANK FOR EAST-WEST TRADE

Contraction was the main aim of Moscow Narodny Bank last year. The Soviet-owned bank incorporated in London since 1919, sharply reduced its size by selling performing assets and running down interbank deposits and borrowings, said the annual report published yesterday. It also once again had to turn to shareholders for financial support, reports Stephen Fidler. Page 24

"Swapping blow for blow"

Storehouse, the UK retailing conglomerate, yesterday reported a drop in pre-tax profits from £12.8m ($22m) to £6.2m in the year to March 30. Michael Julien, chief executive, warned that the British retailing climate showed little sign of improvement in the first half of the current year: "We are swapping blow for blow with our competitors". Page 25

Market Statistics

Base lending rates	38	London traded options	24
Benchmark Govt bonds	28	London trad options	24
FT-A indices	24	Managed fund service	32-35
FT Int bond svce	28	Money markets	38
Financial futures	38	New Int bond issues	24
Foreign exchanges	28	World commodity prices	28
London recent issues	24	World stock mkt indices	37
London share service	30-31	UK dividends announced	25

Companies in this issue

AT&T	23	Miller	26
Acatos & Hutcheson	22	Mitsubishi	22
Airflow Streamlines	26	Mitsubishi Electric	22
Archer (AJ)	27	Mitsui	22
BMW	20	Mitsui Marine, Fire	22
BT	18	Moscow Narodny Bank	24
Baer Holding	20	Nissho Iwai	22
Bajaj Auto	22	Plysu	26
Berry Birch & Noble	27	Rolls-Royce	20
Brent Walker	25	Royal Bank Scotland	28
C.Itoh	22	Sevillana	20
Canada Packers	23	Shaftesbury	27
Dasa	20	Sony	23
Dobson Park Inds	22	Storehouse	25
Endesa	20	Sumitomo	22
Esselte	20	Tace	25
Fujitsu	22	Takare	25
GTE	23	Thames Television	27
Gerrard & National	23	Tokio Fire, Marine	22
Helikopter Service	20	Toppan Printing	22
Hindustan Computers	22	Toshiba	22
Hitachi	22	Trimoco	27
Honda Motor	22	Westbury	27
IBM	23	Westerly	25
Intel	23	Whitbread	20
KDD	22	Winterthur	20
Majestic Auto	22	Yasuda Fire, Marine	22
Marubeni	22	Yorkshire Water	26
		Young & Co Brewery	27

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				Rises			
Brown Boveri	1250	+	68	Chargeurs	735	+	24
Hapag Lloyd	420	+	18	Eurorachs	4150	+	130
Holzmann Ph	1560	+	35	Prom C et Aux	2171	+	121
Falls				Intertechnique	1080	+	34
Horten	190	−	8	Falls			
Porsche	818	−	22	Bongrain	750	−	29
Zanders Feinpap	285	−	18	Pechelbronn	1250	−	47
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Centocor	68	+	1¾	Chiba Bank	910	+	100
Intel	49½	+	1¾	Nippon Kaigai	1180	+	80
UAL	148⅝	+	2¼	Sansui Elect	673	+	83
USAir	18¼	+	¼	Toyo Sugar	585	+	44
Falls				Falls			
Apple	46½	−	1¾	Gajeso Kaisha	526	−	102
Orion Pictures	4⅞	−	1⅝	Nippon Air	1020	−	100

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Wellcome	808	+	19
Bass	971	+	17	Falls			
BA Telecom	393½	+	10½	Alan Paul	120	−	11
Halstead (J)	236	+	11	Archer (AJ)	111	−	6
ICI	1246	+	19	Bowater	3¾	−	6¼
Lloyds Bank	342	+	11	Shaftesbury	120	−	7
Macarthy	224	+	32	Sovereign Oil	119	−	16
Plysu	152	+	9	Steel Burrill	271	−	14
Reliance	188	+	7	Trenchwood	49	−	5
Smith (WH) A	394	+	12	Yorkshire TV	282	−	10
TACE	159	+	9				

Japanese builders warn of slower growth

By Robert Thomson in Tokyo and Andrew Taylor in London

KUMAGAI GUMI of Japan, one of the world's largest construction companies, warned yesterday that pre-tax profits could fall by 10 per cent this year due to the downturn in the Japanese property market.

It was one of several Japanese contractors which issued such warnings yesterday while announcing generally strong results.

Kumagai unveiled a 22.9 per cent increase in pre-tax profits to Y50.51bn ($363m) for the 12 months to the end of March. Sales rose by 9.2 per cent to Y1,201bn, as the company concentrated more on domestic contracts.

Kumagai said it expected profits in the current year to fall by 10 per cent to Y45bn on marginally higher sales of Y1,220bn.

It said overseas contracts, which previously accounted for a quarter of its business, had become less lucrative. They had been hit by exchange rate fluctuations, slower demand and increased competition in international markets.

This was partly due to the emergence of strong construction industries in other Far East countries, such as Korea, which are competing with Japanese contractors at home and abroad.

Export markets were also likely to decline as the fear of world recession reduces development opportunities. Higher interest rates were also taking their toll.

Shimizu and Taisei, two other large Japanese contractors, also expect significantly slower profit growth this year.

Shimizu reported a 41.9 per cent increase in pre-tax profits last year to Y115.7bn. Taisei profits were 43 per cent higher at Y81bn. Both companies wrote off claims against Iraq: Shimizu Y4.7bn and Taisei Y7.7bn.

Ohbayashi Corporation, another large contractor, is more optimistic about orders this year, expecting sales of Y1,650bn, up from Y1,330bn last year. Pre-tax profit rose slightly more than 19 per cent last year to Y60.3bn, and the company predicts a further rise to Y67bn this year.

Concern about Japan's property market is particularly focused on condominiums, with turnover falling sharply over the past few months and prices becoming soft.

The country's largest builder of condominiums, Daikyo, yesterday reported a 32.4 per cent increase in sales to Y705.85bn, but a modest 4.7 per cent rise in pre-tax profits to Y35.78bn.

The company said profits had been hit by the higher interest burden on borrowings for its land purchases and on its growing stock of unsold condominiums. Daikyo announced that it would halve its dividend to Y15 this year.

The company predicted that pre-tax profit would be flat for the period, and that the value of new contracts was likely to fall to Y630bn, down 10 per cent.

Kajima, listed on the London exchange, reported a 43 per cent rise in pre-tax profits to Y103.23bn. Pre-tax profits for the current year are expected to rise 26 per cent to Y130bn on sales of Y2,000bn, up 17.5 per cent.

Packaging crusader wraps up merger deal

Andrew Hill and **John Thornhill** report on Tetra Pak

When Mr Bertil Hagman, president and chief executive of Tetra Pak, visited Brussels earlier this month, he seemed philosophical about the European Commission's investigation into the liquid packaging group's bid for Alfa-Laval. But he also had the faintly aggrieved air of an evangelist told to lay off for a while to give other religions a chance.

Yesterday's news that, in effect, the bid had been approved has taken a weight off Mr Hagman's mind, and should boost an already heavy presence in the European food packaging and processing market.

It came as a surprise when, in March, the Commission began a full inquiry into the SKr16.25bn ($2.6bn) bid for Alfa-Laval, the Swedish dairy and food processing equipment company. It was only the third under the EC's six-month-old takeover rules and the first in-depth look at a merger between companies based outside the Community.

Mr Hagman feared a damaging delay, but by stretching its procedural rules a little, the Commission's merger task force has been able to unfreeze the bid before formal approval. This released Mr Hagman to continue Tetra Pak's crusade to improve food packaging technology.

Tetra Pak has been at the forefront of such technology ever since its founder, Dr Ruben Rausing, developed his famous tetrahedron carton in 1951. Legend has it that Dr Rausing developed the concept while watching his wife stuffing sausage casings.

The company expanded spectacularly following the introduction in 1969 of the revolutionary Tetra Brik Aseptic packaging system. This allowed liquids to be hermetically sealed in cartons.

Last year, Tetra Pak sold 57bn cartons, more than 10 for each inhabitant of the planet.

Like many Swedish companies, Tetra Pak is a truly international concern. Its headquarters are in Lausanne, Switzerland, but it has operations spanning 109 countries. The company claims it has 4 per cent of the world market for liquid food packaging products. It also says it has 14 per cent of the European market, rising to 46 per cent in segments such as milk.

Yet Tetra Pak is highly secretive about its financial performance. Last year sales amounted to SFr6.1bn ($4bn) but the company's profitability remains a mystery to the outside world. Analysts have suggested that profits may have been SKr4bn.

"We have tried to avoid talking about profits simply because if the profits are bad it creates unnecessary worry about the future of the company; and if the profits are good, it may stimulate our suppliers to increase prices unnecessarily," says Mr Hagman.

He suggests that privately-owned companies can plough profits back into research and development, and long-term gain need not be sacrificed to short-term performance. Almost 10 per cent of its employees are engaged in R&D activities.

Until now, Tetra Pak has concentrated on liquid food packaging. So why expand? Outsiders have suggested many reasons for the Alfa-Laval bid: fear of the future for Tetra Pak's packaging products because of competitive and environmentalist pressures; waning interest in the company by the Rausing family; or financial opportunism. Mr Hagman pooh-poohs such speculation.

He says if Tetra Pak and Alfa-Laval combine, they will have a stronger position in the market and a better base to develop "tomorrow's technologies".

For example, the combined company would be able to supply the entire processing and packaging needs of a modern dairy from cow to carton.

It was this very synergy which alerted Brussels' suspicions. The Commission's principal concern was that rivals were unable to provide both packaging and processing machines, for example, to dairy owners. The Commission has not made its approval conditional on formal undertakings from Tetra Pak and Alfa-Laval; but both companies had already promised not to make sales of, say, packaging machinery, dependent on orders for processing machinery. They also promised to make equipment compatible with competitors' products.

"We made the promises because that was what the food industry would demand from us," said Mr Hagman yesterday.

The Commission's task force also discovered, in what one official called "an extraordinarily thorough inquiry", that the merger would have little effect on purchasing policies of EC dairies.

Mr Hagman congratulated the Commission yesterday on the speed with which it resolved the case, but the wealth of goodwill from both sides leaves one interesting question unresolved.

A Commission inquiry into allegations that Tetra Pak has been abusing a dominant position in the Italian market has been running since 1983. The issue, say EC officials, is whether it has been forcing customers who use its machines to use its cartons as well. A decision may be reached over the summer.

The impact of the merger inquiry on the Italian case is not clear, but if Brussels comes down against Tetra Pak in the older investigation, it may yet unsettle the unflappable Mr Hagman.

Hagman: crusading to improve food packaging technology

KHD held back by fall in foreign orders

By Andrew Fisher in Frankfurt

KLOCKNER-Humboldt-Deutz made a slow start in 1991, but earnings should match those of last year, when the German engineering company made its first net profit since 1986, Mr Karl-Josef Neukirchen, its chief executive, said yesterday.

The company reported a net profit of DM30m last year compared with a net loss of DM170m in 1989.

KHD, whose activities include manufacturing diesel engines and tractors and constructing industrial plants, is feeling the effects of economic weakness in foreign markets, he said.

Total turnover in the first four months was only 1 per cent higher at DM1.2bn ($697.6m) compared with the same period last year, as a 22 per cent rise in the buoyant domestic market was largely offset by a 12 per cent fall in foreign sales.

New order inflow was down by 17 per cent to DM1.3bn compared with the 1990 period as a result of a slowdown in the construction sector and in the European farm machinery sector, as well as delays in plant orders.

KHD's order backlog at the end of April was DM2bn, a fall of 7 per cent on the same period last year but 9 per cent higher than at the start of this year.

Last year, the company doubled its operating profits to DM82m, a continued improvement from its weak performance in 1987, when it made an operating loss of DM402m.

The company's earlier problems stemmed mainly from its disastrous investment in Allis Chalmers, the US farm equipment manufacturer, in 1985. KHD has since sold its stake, but not before the investment cost the company about DM1bn.

BT cautious on UK economy despite £3bn pre-tax profit

By Charles Leadbeater, Industrial Editor

BT, the British telecommunications operator, yesterday warned that there was no sign of the UK recession bottoming out, even though its annual pre-tax profits to end-March had advanced to more than £3bn ($1.74bn), a 14 per cent rise on the previous year.

The company – the largest private concern in Britain – plans to make more than 10,000 job cuts in the coming year after shedding 18,800 jobs in the past year as part of a cost-cutting drive.

Mr Ian Vallance, BT's executive chairman, said the rate of decline in call volumes had begun to slow but there were no signs of an upturn.

The company's figures show that a year ago call volumes within the UK grew at 10 per cent a year. This March the rate slowed to just 4 per cent a year.

The state of BT's business, which serves more than 25m customers, is one of the most comprehensive industrial indicators of the state of the economy.

The company's assessment that the trough of the recession still had not been reached came a day after the Confederation of British Industry, the employers' organisation, warned that the economy would weaken further unless there was an immediate cut in interest rates.

BT's profit increase was achieved on a 6.8 per cent increase in turnover to £13.1bn. Growth in international call volumes also slowed. Turnover of international services rose by only £22m to £1.8bn, while revenue from installing equipment fell by £40m to £1.34bn.

The sharp rise in profits was mainly due to the cost-cutting drive which reduced employment to 227,000 in March 1991 from 245,700 a year before. Staff costs rose from £4.1bn in 1990 to £4.35bn last year.

Interest payments fell from £484m to £411m mainly because of an £832m reduction in net debt to £3.6bn. About £100m of the interest charge was attributable to the cost of BT's stake in McCaw Cellular, the US mobile telephone operator.

Minority interests made no contribution to earnings compared with £26m last time, because profits from Cellnet, the UK cellular operator controlled by BT, were offset by losses at Mitel, the Canadian telecommunications equipment maker. BT is still searching for a buyer of its 51 per cent stake in Mitel.

BT's profit performance was also helped by a sharp cut in capital expenditure from £3.1bn in 1990 to £2.75bn.

Earnings per share rose 16.4 per cent to 34p. The directors are recommending a final dividend of 8.05p to make a total dividend of 13.3p, an increase of 12.7 per cent.

Lex, Page 18

AGF buys stake in Banesto insurer

By Peter Bruce in Madrid

AGF, the French State-owned insurance group, is buying 24 per cent of La Union y El Fenix, one of Spain's biggest insurance companies, from its owners, the independent Spanish commercial bank, Banesto.

Banesto officials confirmed yesterday that AGF would also buy between 2.5 and 3 per cent of Banesto itself to become one of the bank's largest shareholders.

Banesto said that AGF would pay around Pta28bn ($264.15m) for the stake in Union y Fenix and about Pta11bn for a stake in the bank itself.

AGF and Banesto, which held about 52.3 per cent of Union y Fenix, plan to pool their stakes in the insurance group into a holding company which will still control it.

Banesto, through its industrial corporation, will hold 55 per cent of the new holding company.

In a separate agreement, Union y Fenix-AGF will use Banesto's extensive bank branch network in Spain to market insurance policies, paying about Pta10bn in rent to the bank over the next three years.

The deal will provide a significant boost in funds for Banesto, which is still in the throes of a massive modernisation programme.

Mr Mario Conde, Banesto's chairman, has, for the moment, ruled out any possibility of him merging the bank with a Spanish rival.

This follows the merger earlier this month of Banco Central and Banco Hispano Americano, and the merger of all of the country's state-owned financial institutions into a giant new bank.

However as interest rates begin to fall in Spain, the banking sector's traditionally high interest rate margins are beginning to shrink, putting pressure on banking profits and raising the likelihood of the banks having to make extraordinary profits.

A number of banks, including Banesto, are selling off regional banking affiliates, and Banco Central has just reported a sharp 45 per cent drop in first-quarter pre-tax profits – to Pta15.6bn – in its banking group.

INTERNATIONAL COMPANIES AND FINANCE

Dasa forecasts improved result

By Andrew Fisher in Frankfurt

DEUTSCHE Aerospace (Dasa), the Daimler-Benz subsidiary, expects to turn in a "considerably improved result" this year as a result of the dollar's recovery after a loss of DM135m ($79m) last year caused by the US currency's previous weakness, Mr Manfred Bischoff, finance director, said.

The loss reflected provisions on contracts of Deutsche Airbus, part of Dasa and a member of the European Airbus consortium, to reflect the US currency's fall at the end of last year.

Turnover of Dasa totalled DM12.5bn and should rise to DM13bn in 1991.

Mr Jürgen Schrempp, the chief executive, said that Dasa had now completed the reorganisation necessitated by the addition of Messerschmitt-Bölkow-Blohm to its Dornier aircraft and MTU engine units. This had made it more market-oriented and able to engage in large aircraft and space projects.

Dasa expects to decide by late summer whether to go ahead with its proposed $2.5bn regional aircraft project together with Aerospatiale (France), Alenia (Italy), and Canadian, Spanish and Chinese companies. It will request repayable launch aid from the German government which could total DM600m.

The German company would take a 50 per cent share in the aircraft venture, with Alenia and Aerospatiale taking 25 per cent each. Dasa would then pass on stakes to the other partners, reducing its share below 40 per cent.

Mr Schrempp said even if the Airbus consortium went ahead with a smaller version of an existing Airbus, this would still leave room for an aircraft to cover the market below 120 seats.

He said the defence technology share in Dasa's turnover should drop from last year's 48 per cent to 25 per cent by the year 2000 as Airbus production increased, other civil projects were developed, and defence budgets were reduced. The company has already said that 1,000 jobs would be lost on the defence side.

Earnings fall of 9.5% surprises Winterthur

By William Dullforce in Geneva

WINTERTHUR, Switzerland's biggest non-life insurance group, has reported an unexpected decline of 9.5 per cent in 1990 consolidated net earnings. The company, however, will pay an unchanged dividend.

Group net profit amounted to SFr236.6m ($162m), compared with SFr261.3m for the previous year. The 1989 figure was adjusted to bring it into line with the new reporting principles under which Winterthur is consolidating its larger minority holdings.

Gross premium income rose 4.1 per cent to SFr12.48bn, representing a growth rate of 9.7 per cent in terms of local currencies. More than 54 per cent of direct income was generated outside Switzerland.

Mr Peter Spaltl, chairman and chief executive, had forecast higher 1990 earnings last November. Winterthur attributes the setback to narrowing margins in several countries, unfavourable currency fluctuations, and the poor state of financial markets last year. Winter storms in northern Europe also had an impact.

Shareholders' equity fell from SFr4.84bn at the end of 1989 to SFr3.79bn, in part because of the write-off of SFr541.3m in goodwill on the acquisition of General Casualty, a Wisconsin-based US insurance company, for which Winterthur paid $630m.

The parent company achieved a net profit of SFr133.2m, down from SFr139.6m in 1989. The board proposes to pay an unchanged dividend of SFr68 per share and SFr13.60 per participation certificate, giving a total payout of SFr109.6m after last year's rights issue, compared with SFr102.5m on the 1989 account.

Premium income in Winterthur Life, the life insurance subsidiary, amounted to SFr3.57bn, with total assurance in force rising by 8 per cent to SFr117bn.

Investment income advanced by more than 12 per cent to SFr1.25bn. Bonuses allocated to policies rose by 14 per cent to SFr473m.

Whitbread advances 9.7% on strength of beer sales

By Philip Rawstorne in London

WHITBREAD, the brewer and retailer, showed resilience in tough trading conditions with a 9.7 per cent increase in full-year pre-tax profits to £291.5m ($503.2m) from £265.7m.

The results, which include pre-tax profits of £5.8m for the Whitbread Investment Company, were at the top end of market forecasts. Shares gained 13p to close at 486p.

During a year "when virtually every month brought a further deterioration in customer confidence", according to Mr Peter Jarvis, chief executive, turnover rose to £2.06bn from £2.05bn – an increase of 14 per cent after adjusting for discontinued businesses.

Earnings per share grew 9.5 per cent to 47.29p from 43.18p and a final dividend of 12p lifts the total payout 10 per cent to 16.3p from 14.8p.

Operating profits from Whitbread's brewing operations rose 15 per cent from £61.8m to £71.1m on turnover 29 per cent higher at £897m from £748m. Beer volumes increased by 1.5 per cent in a market which declined by the same amount.

The Boddingtons brand led a 50 per cent growth in Whitbread's portfolio of cask-conditioned ales and Murphy's stout achieved sales of £75m in only its second year of distribution.

The group's managed retail estate, which now contributes half its profits, recorded a 10 per cent increase in turnover to £1.26bn from £1.14bn and pushed profits 7 per cent higher to £128.7m from £120.6m.

Whitbread Inns showed strong growth in drink and food sales; the Thresher wine and spirits chain improved margins, profits and market share; and TGI Friday's traded strongly. Pizza Hut maintained profits and pushed its market share above 50 per cent.

Turnover in Whitbread's leased and tenanted pubs grew 9 per cent to £273.6m from £251.3m and profits rose 4 per cent to £65.7m from £63.2m. Whitbread has now sold 443 pubs and a further 350 will follow this year as it moves to meet the changes resulting from the Monopolies and Mergers Commission inquiry.

An extraordinary charge of £42m is included in the accounts as the cost of meeting the changes. A similar provision of £45m was made last year. All the sales so far have exceeded book value. The accounts include a £36.3m profit on disposal of retail properties.

A new pub leasing programme is now under way with 450 completed and another 500 in negotiation.

"This total charge of £87m is a very high price to have to pay to meet the new regulations," Mr Jarvis said.

Lex, Page 18

Cost-cutting lifts Esselte to SKr83m

By John Burton in Stockholm

ESSELTE, the Swedish office products group, yesterday reported that profits after financial items rose by 26 per cent to SKr83m ($13.5m) in the first quarter.

The improved result was due to lower financial costs.

Esselte last year sold its publishing and printing units as well as property holdings for a net gain of SKr2.9bn. It made the sales to reduce its debt burden.

Other property was sold in January for a profit of SKr161m. However, operating profit in the first quarter fell by 30 per cent to SKr156m as sales declined by 5 per cent to SKr4.08bn.

Demand has fallen in Esselte's main markets, including the US, the UK and the Nordic region, although sales have risen in Germany.

Despite the fall in sales and prospects that demand will remain weak, Esselte is confident that earnings for the year will exceed the 1990 result of SKr145m, due to lower interest payments and cuts in production costs. Esselte last year closed 17 facilities worldwide, reducing its workforce by 2,400.

Operating costs in the first quarter fell by 5 per cent to SKr3.7bn.

The upswing in earnings comes as Mr Rune Andersson, the chairman of the Swedish mining and industrial group Trelleborg, becomes the Esselte chairman.

Spanish power row intensifies

By Tom Burns in Madrid

SEVILLANA, the large electricity producer which supplies Spain's fast-growing southern belt, yesterday took the unusual step of issuing a statement to deter the state-controlled utility Endesa from increasing its stake in the company.

The defence mounted by Sevillana complicates the attempts by the government to restructure the domestic electricity sector with the creation of a large utility group around Endesa.

Foreign institutional investors hold up to 15 per cent of the equity in Sevillana. The largest single shareholder is the Banco Bilbao Vizcaya (BBV), with a 10.2 per cent stake. Sevillana said its board considered that any attempt by Endesa to buy its equity without prior agreement would be considered a hostile move.

The board apparently fears that Endesa may be poised to repeat a controversial stock market raid on Sevillana that it conducted in the summer of 1989, when it acquired nearly 10 per cent of the company.

In earlier comments, Sevillana spokesmen had indicated that Endesa's designs on Sevillana were to control the company and that this was unacceptable.

They were responding to remarks earlier in the week by Endesa's chairman, Mr Feliciano Fuster, who said he would welcome closer links with the Seville-based company.

Mr Fuster unveiled an aggressive acquisition strategy when he masterminded the acquisition of the ninth-ranked utility Electra de Viesgo two months ago.

However, Iberduero and Hidrola, the two largest private utilities, subsequently stole a march on Endesa by joining forces earlier this month to form HI Holdings.

Baer Holding holds payout, simplifies share structure

By William Dullforce

BAER HOLDING, the parent company of the Julius Baer private banking group of Zurich, yesterday announced an unchanged dividend and said it would convert its participation certificates into bearer shares.

Net earnings increased by 4.3 per cent to SFr35.6m ($24.4m) for the year ended March 31.

The board plans to pay a dividend of SFr210 per bearer share, SFr42 per registered share and SFr8.40 per participation certificate.

Baer had assured shareholders of an unchanged dividend in March, when the group reported a 20 per cent slide in net earnings to SFr47.8m for the calendar year 1990.

To simplify its share structure, Baer Holding is offering one bearer share with a nominal value of SFr500, carrying one vote, for 25 non-voting participation certificates of nominal value SFr20 each.

This conversion will be covered by the issue of 13,936 new bearer shares which will take the share capital from SFr52.3m to SFr59.3m.

Control of the company will remain with the Baer family, which owns all the registered stock, apart from some 7 per cent which is held by Union Bank of Switzerland.

Helicopter group to issue new equity

HELIKOPTER Service, Norway's largest helicopter operator, is planning next week to float 8.7m shares to raise NKr504m ($75.2m) to fund its development, writes Paul Betts.

About 80 per cent of the company's annual revenues of NKr1.25bn comes from offshore oil operations.

The company is controlled by Mr Kjell Andersen and Mr Tor Andenaes, who hold 68.2 per cent of the outstanding shares. After the offering, their interest is expected to fall to 31 to 32 per cent.

Half the 8.7m shares on offer are expected to be placed with institutions on the international market.

KHD confident of matching net

By Andrew Fisher

KLOCKNER-Humboldt-Deutz made a slow start in 1991, but earnings should match those of last year, when the German engineering company made its first net profit since 1986, Mr Karl-Josef Neukirchen, its chief executive, said yesterday.

The company reported a net profit of DM30m ($17.5m) last year against a net loss of DM170m in 1989.

KHD, whose activities include manufacturing diesel engines and tractors and constructing industrial plant, was feeling the effects of economic weakness in foreign markets, he said.

Total turnover in the first four months of 1991 was only 1 per cent higher at DM1.3bn compared with the same period last year, as a 22 per cent rise in the buoyant domestic market was largely offset by a 12 per cent fall in foreign sales.

New order inflow was down by 17 per cent to DM1.3bn as a result of a slowdown in the construction sector and in the European farm machinery sector, as well as delays in plant orders.

KHD's order backlog at the end of April was DM2bn, 7 per cent down on the same period last year, but 9 per cent higher than at the start of this year.

Last year, the company doubled its operating profits to DM82m, a continued improvement from its weak performance in 1987, when it made an operating loss of DM402m.

The company's earlier problems stemmed from its disastrous investment in Allis-Chalmers, the US farm equipment manufacturer, in 1985. KHD has since sold its stake, but not before the investment cost the company about DM1bn.

Mr Neukirchen came to KHD in 1987 to effect a recovery and will shortly move to Hoesch, the steel and engineering group.

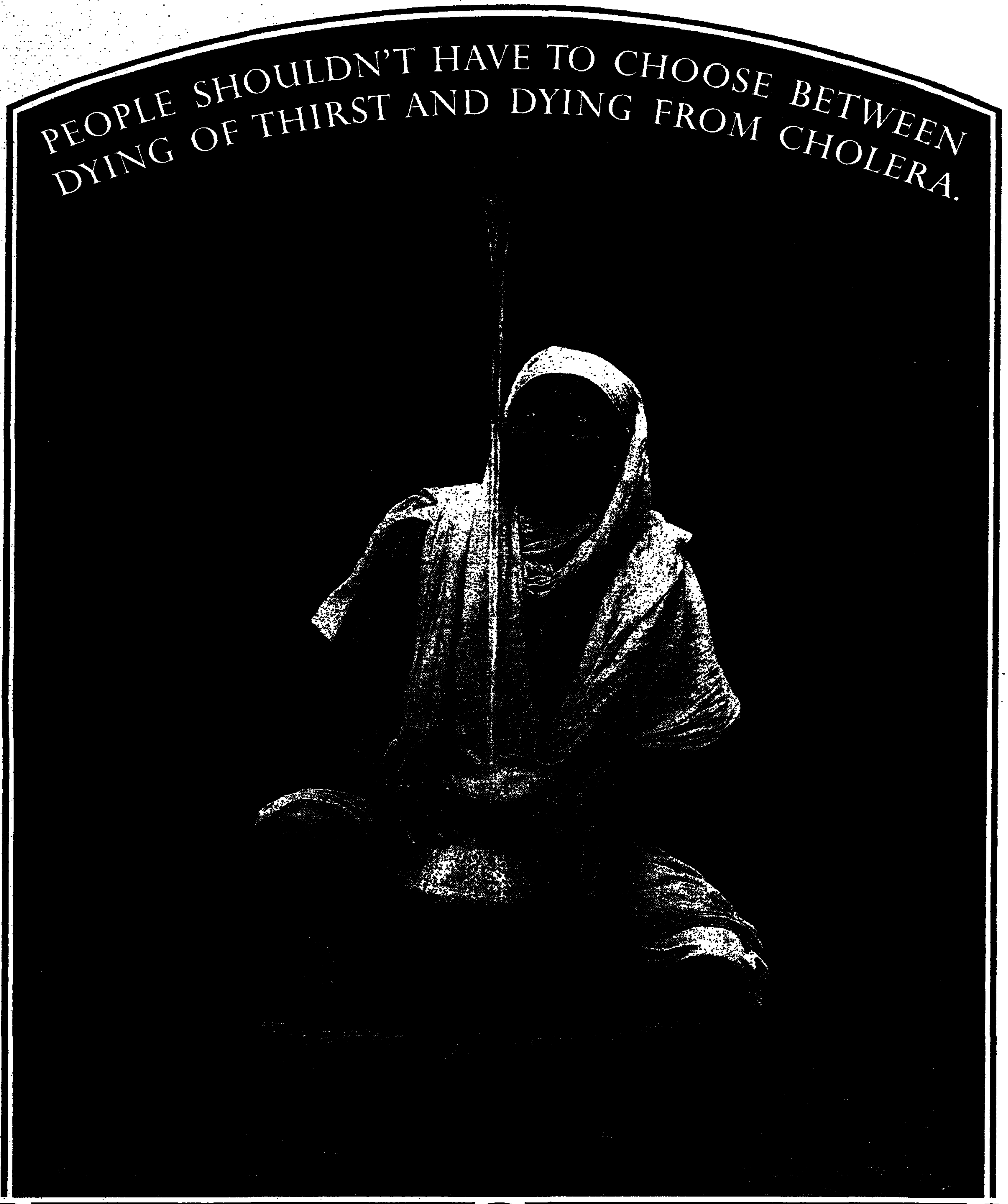
He said work had already begun on a new DM600m diesel engine plant for KHD in Cologne. It will have an annual capacity of 150,000 engines a year when production starts in 1993.

BMW Rolls-Royce near deal on site

BMW Rolls-Royce, the recently-formed joint venture between the German car company and the UK aerospace group, is near final agreement on the site for a new engine plant in east Germany, with an initial investment of around DM200m ($118m) planned, writes Andrew Fisher.

The company said it hoped to complete the purchase of the site, south of Berlin in the east German state of Brandenburg, by July. Construction on the green field site could then start later this year, with some 500 jobs created when the first phase of production starts in the mid-1990s.

BMW Rolls-Royce intends to produce a new family of civilian aircraft engines at the east German plant. Development of this range, aimed at the regional market, will cost around DM1bn by 1996.


PEOPLE SHOULDN'T HAVE TO CHOOSE BETWEEN
DYING OF THIRST AND DYING FROM CHOLERA.

Honda Motor posts 65% decline

By Robert Thomson in Tokyo

HONDA Motor, the Japanese car maker, yesterday reported a sharp fall in pre-tax profits in the final quarter as US sales proved sluggish, the domestic market turned soft, and selling expenses increased.

The group suffered a 65 per cent decline in pre-tax profit to Y16.56bn ($129.13m) in the quarter to the end of March. For the full year consolidated pre-tax profit was Y132bn, down from Y152.1bn, on sales of Y4,301.5bn, an increase of 11.6 per cent. Sharply increased turnover of motorcycles in Asia compensated for the downturn in the US car market.

Sales in the final quarter rose by 3.8 per cent from a year ago to Y1,142bn, with motorcycle-related revenue rising 38.9 per cent, car sales increasing by only 3.2 per cent, and other business revenue up 28.6 per cent.

After several years of surging sales, the Japanese market has turned down, with passenger car sales below year-earlier levels for nine consecutive months. However, Honda officials said yesterday they expected domestic sales to be stimulated later in the year, when several new models will be unveiled.

For the current year, sales are expected to rise 7 per cent, although the company said tougher market conditions would lead to reductions in capital investment, which will fall by an estimated 12 per cent, while research spending may fall slightly and the intake of new Japanese staff next year will be cut.

Honda predicts that net profit for the year will be Y77bn, slightly higher than last year's Y76.2bn, although selling expenses may increase sharply as the company will be "competing in an intensely competitive automobile market".

Last year, motorcycle revenue rose 29.3 per cent and car revenue rose 8.9 per cent, due mainly to "an improved model mix and a weaker yen against major European currencies".

The company reported marginal increases in car sales in North America and the domestic market, but a 36 per cent increase in the value of sales to Europe, which accounted for 10.7 per cent of total sales, up from 8.6 per cent in fiscal 1989.

Motorcycle sales fell in Japan, but rose sharply elsewhere. Europe accounted for 23.9 per cent of motorcycle sales, up from 23.2 per cent, while Japanese sales fell as a proportion from 40.6 per cent of the total to 30.7 per cent.

Higher premiums fail to lift insurers

By Neil Weinberg

JAPAN'S four leading property and casualty insurers posted lower profits at the pre-tax level, despite rises in premium revenues in the year to the end of March, as higher vehicle repair and natural disaster payments took their toll.

Tokio Fire and Marine, Japan's largest non-life insurer, posted a drop in after-tax profits for the second consecutive year.

Yasuda Fire and Marine, Mitsui Marine and Fire Insurance and Sumitomo Marine and Fire Insurance also showed profit declines for the first time in eight years.

The rise in premium income among the industry leaders was supported by growth in vehicle underwriting, as domestic car sales remained relatively buoyant.

However, the cost of car repairs rose even more rapidly, due to the growing number of luxury vehicles on the roads and higher repair shop labour costs. Increasing commission payments to insurance agents also put pressure on profits.

The non-life insurers expect profits to rebound in the year to end-March 1992, in part on a 7.8 per cent average rise in vehicle insurance premiums, scheduled to take effect on July 1. Nursing insurance and savings-type insurance contract renewals are further seen supporting a profit recovery.

Tokio forecasts premium income will increase 11 per cent to Y1,110bn ($7.985bn) and pre-tax profits 5 per cent to Y103bn. The other three companies released similar predictions.

PROPERTY AND CASUALTY INSURERS

	Premium revenue*	Pre-tax profit*	Operating profit*
Tokio	1,006 (+8.8)	97.9 (− 5.6)	15.9 (−42.2)
Yasuda	724 (+6.3)	42.4 (− 16.0)	−6.0 (-)
Mitsui	487 (+9.5)	35.2 (− 12.6)	0.4 (−92.2)
Sumitomo	420 (+9.7)	37.9 (− 7.4)	5.3 (−52.1)

* Billions of yen; percentage change in brackets.

Electrical combines hit by rising costs

By Stefan Wagstyl in Tokyo

PROFITS at three of Japan's largest electrical combines were hit last year by the rising cost of labour and of product development and by declining prices of semiconductors and personal computers.

Hitachi, Toshiba and Mitsubishi Electric all posted increases in sales in the year to March, due to strong demand in Japan and overseas. But all three suffered falls in operating profits. Toshiba's profits also fell at the pre-tax level, while Hitachi and Mitsubishi posted marginal increases.

The three groups forecast slight increases in sales for the current year. Toshiba and Hitachi predicted virtually unchanged profits, but Mitsubishi said pre-tax profits would fall 8 per cent.

Margins are likely to continue being squeezed by increases in costs and falling product prices. Competition is intense with all three leading groups, plus others, including Matsushita Electric Industrial, battling for sales across a wide range of products.

Toshiba said its decline in profits was due mainly to price cuts in semiconductors and intensified competition in personal computers.

On a consolidated basis, sales rose 10 per cent to a record Y4,696bn ($33.77bn) but pre-tax profits fell 4 per cent to Y258.5bn. Net income was down 8 per cent at Y120.8bn. At the parent company, which accounts for much of the operation inside Japan, pre-tax profits fell 13.1 per cent to Y175.4bn.

For the current year, Toshiba forecasts a 6 per cent increase in consolidated sales to Y4,980bn and a marginal increase in pre-tax profits to Y260bn.

Hitachi reported a 9 per cent rise in consolidated sales to Y7,737bn and a 6 per cent increase in pre-tax profits to Y562.0bn.

Net profits were up 9 per cent, but operating profits, which exclude the group's considerable financial income, rose just 1 per cent. At the parent company, operating profits fell 14 per cent to Y171.6bn. Pre-tax profits rose 2 per cent to Y208.3bn.

Hitachi forecasts increases in consolidated sales and pre-tax profits this year to Y8,100bn and Y560bn respectively.

Mitsubishi posted increases of 11 per cent in consolidated sales to Y3,316bn and 1 per cent in pre-tax profits to Y182.2bn. Operating profits fell 8.2 per cent to Y208.7bn and net profits rose 4 per cent to Y79.7bn. The parent company saw pre-tax profits fall 0.7 per cent to Y136.3bn.

Mitsubishi expects sales in the current year to rise 2.5 per cent to Y3,400bn on a consolidated basis, but pre-tax profits to fall 8 per cent to Y168bn.

It is smaller than its two rivals and so less able to maintain the pace in keeping down costs and continuing to invest across a wide product range.

The companies are pouring huge sums into research and development and new capital equipment. Hitachi said research and development rose 14 per cent to Y491bn, or 6.3 per cent of sales. Capital spending increased 19 per cent to Y781.4bn.

● Sumitomo Electric, a leading wire maker, reported a 24.7 per cent increase in parent company pre-tax profits to Y33.4bn on an 11.6 per cent increase in sales to Y782bn.

Capital investment by Japanese industry boosted sales, as did a successful diversification into car brake systems. Further increases in sales and profits are expected in the current year.

Top trading companies in Japan beat interest rise

By Neil Weinberg in Tokyo

JAPAN'S six leading trading companies managed to overcome a sharp rise in interest expenses to post mostly higher sales and pre-tax profits for the year to end-March.

The six also set aside a total of Y74.3bn ($530.46m) in loss reserves on Y353.2bn in claims against Iraq. Mitsubishi, with the highest claims of Y99bn, set aside the largest amount at Y30.3bn.

The Ministry of International Trade and Industry (MITI) also disclosed that all the leading trading houses, excluding Sumitomo, which had the second largest loss reserves and claims, have filed for a total of Y10.2bn in related trade insurance.

C. Itoh, the top trader in sales, reported a 0.3 per cent rise in sales, despite declines of 30.3 per cent and 38.9 per cent in imports and exports respectively.

Sales were also dulled by an accounting change last year under which traders book only the difference between selling and buying of gold bullion. Excluding gold transactions, sales rose 12.8 per cent. Pre-tax profits, meanwhile, climbed to a record Y54.3bn.

C. Itoh expects sales to rise 2 per cent to Y21,000bn and pre-tax profits 1.3 per cent to Y55bn in the year to end-March 1992. Sumitomo Corp, the second largest trader, posted the highest pre-tax profits at Y77.2bn, up 10.3 per cent.

Company sales rose 12.8 per cent, with growth reported strong in all divisions. Particular rises included 28.1 per cent for chemicals and fuels.

Sumitomo expects sales to rise 5 per cent to Y21,000bn and pre-tax profits 5.6 per cent to Y82bn in the current fiscal year.

Marubeni posted record sales of Y19,015bn, up 4.2 per cent, on strong domestic demand and higher crude oil prices. Domestic transactions rose 12.3 per cent and overseas transactions 19.4 per cent.

Marubeni forecasts sales up 0.6 per cent to Y19,200bn, while pre-tax profits will fall 8.8 per cent to Y50bn in the year to end-March 1992.

Mitsui reported a rise of 7.6 per cent in sales to Y18.23bn, led by a 13.5 per cent rise in international transactions. The company forecasts sales rising 4.2 per cent in the current fiscal year to Y19,000bn and pre-tax profits 6.4 per cent to Y70bn.

Mitsubishi posted a 14.4 per cent rise in pre-tax profits, to a record Y94.3bn, as machinery and information related operations gained 11.5 per cent and 7.5 per cent respectively.

Mitsubishi expects sales in the year to end-March 1992 to rise 0.5 per cent to Y17,500bn and pre-tax profits 5.8 per cent to Y100bn.

Nissho Iwai posted the only declines in sales and pre-tax profits, which were down 11.3 per cent and 25.1 per cent respectively. Excluding gold transactions, company sales rose 2.7 per cent. Higher interest rates and a 46.5 per cent drop in exports and 23.1 per cent in imports were behind the declines.

Nissho Iwai forecast a further 11.5 per cent drop in sales to Y12,500bn and 22 per cent in pre-tax profits to Y20bn in the year to end-March 1992.

LEADING JAPANESE TRADING COMPANIES*

Company	Sales	Pre-tax profits	Net profits
C. Itoh	20,595 (+0.3)	54.3 (+0.6)	19.0 (+2.3)
Sumitomo	19,212 (+12.8)	77.2 (+10.3)	35.5 (+4.1)
Marubeni	19,015 (+4.2)	54.8 (+8.2)	17.1 (+4.8)
Mitsui	18,234 (+7.6)	66.0 (+1.6)	22.2 (+0.8)
Mitsubishi	17,421 (+4.8)	94.3 (+14.4)	43.0 (+4.6)
Nissho Iwai	13,343 (−11.3)	24.5 (−25.1)	9.6 (+3.5)

* Parent company results, year to end-March (Ybn); percentage change in brackets.

KDD suffers first fall in annual sales for 33 years

By Neil Weinberg

KDD, Japan's largest international communications company, suffered its first sales decline in 33 years in the year to end-March as price cuts and increased competition among common carriers took their toll.

Pre-tax profits fell 11.9 per cent to Y25.98bn ($189m), marking their second consecutive decline, while operating profits were down 30.4 per cent to Y16.96bn. Sales declined 7 per cent to Y240.72bn.

KDD, which enjoyed an international telephone service monopoly until 1985, saw revenues from its mainline international telephone service drop 10 per cent as two aggressive new competitors vied for market share.

The company is also investing aggressively in satellite and optical communication technologies and noted a sharp rise in fixed costs.

KDD expects sales to rise 5 per cent to Y253bn for the current year despite cuts in overseas telephone charges on April 1. Pre-tax profits are expected to rise 4 per cent.

Pioneer Electronic sees drop in earnings this year

By Emiko Terazono in Tokyo

PIONEER Electronic, the Japanese leading audio maker, has forecast a decrease in non-consolidated, pre-tax profits to Y31bn ($223.02m) for the year to end-March 1992, the third fall in seven years.

The company's announcement is in line with market estimates that its earnings for the current year will be hit by the deteriorating Japanese audio visual market.

Pioneer yesterday announced non-consolidated results for the past year. Pre-tax profits rose 9.8 per cent to Y34.8bn on a 10.8 per cent increase in sales to Y357.6bn. Sluggish demand depressed sales of its audio division by 3 per cent to Y122.2bn, but both its video and car electronics divisions posted strong sales results.

The company's stock price has been volatile in Tokyo recently on earnings speculation and has been dubbed the "Pioneer shock" by Tokyo's financial community.

For the year to March 1991, strong sales in Europe helped Pioneer's consolidated pre-tax profits, which rose 12.8 per cent to Y71.9bn. Strong sales of its laser disc sing-along karaoke systems and compact disc players for cars helped overall sales, which rose 17.2 per cent to Y599.6bn.

Audio sales rose 7.3 per cent to Y191.9bn, video products increased by 26.5 per cent to Y193.4bn and sales for car electronic products rose 19 per cent to Y176.8bn. After-tax profit grew 16.5 per cent to Y34.3bn.

For the current year, sales for the parent company are expected to rise 5.2 per cent to Y417bn and after-tax profits to fall 18.2 per cent.

Pioneer blamed the slower sales growth on weak domestic demand in audio products and car electronics products due to the weak vehicle market.

Fujitsu advances 0.2% to Y127.26bn for year

By Robert Thomson in Tokyo

FUJITSU, the Japanese computer company, reported a marginal 0.2 per cent increase in pre-tax profit to Y127.26bn ($922.17m) in the year to end-March, as domestic computer sales improved but sales of electronic devices were weak and the company's debt servicing burden increased.

Total sales of the parent rose 10 per cent from a year earlier to Y2,338bn, with sales of communications equipment up 14.6 per cent, thanks to strong demand from Nippon Telegraph and Telephone (NTT), while sales of information processing equipment rose 12.2 per cent.

However, electronic device sales fell 7.7 per cent, with sales of memory devices affected by sluggish demand.

The company is presently expanding its semiconductor production capacity, and is hoping for stronger demand this year for its newer chips.

Fujitsu said consolidated sales are likely to rise 23 per cent this year, as sales will be included from the UK-based International Computers (ICL), the European computer manufacturer, which is now 80 per cent owned by Fujitsu.

ICL recently reported annual pre-tax profits down 26 per cent at £110m ($190m.)

For the current year, the parent company expects a 6 per cent increase in pre-tax profit to Y135bn, and an 11 per cent increase in sales to Y2,600bn.

Printing group climbs 9% to Y33.31bn

TOPPAN Printing, Japan's second largest printing company, lifted net profits nine per cent to Y33.31bn ($260m) in the year to end-March 1991, compared with Y30.56bn in the previous year, Reuters reports from Tokyo.

Sales increased to Y846.2bn, against Y781.56bn.

Toppan forecasts a buoyant year, with net profit climbing to Y34bn and sales rising to Y905bn in the year to end-March 1992.

Earnings per share for the current year are Y51.71, against Y47.57 a year ago and are expected to rise to Y52.78 in the year to March 1992.

Toppan Printing intends to retain a Y10 a share annual dividend.

Bajaj Auto slips 13.4% and cuts payout to Rs10

By David Housego in New Delhi

BAJAJ Auto, India's largest manufacturer of motor-scooters and three-wheeler vehicles, suffered a 13.4 per cent drop in net earnings for 1990-91. It signals the growing squeeze on corporate profits created by the sharp fall in industrial production.

Bajaj, which provides a yardstick for the performance of the Indian engineering industry, saw sales tumble in the second half as a result of rioting in parts of the country and a shortage of diesel fuel.

Net profits declined to Rs563m ($27.81m) although turnover for the year rose by 14.5 per cent to Rs12.2bn. The drop in sales in the second half forced the company to cut production by 25-30 per cent at its Aurangabad and Pune plants.

Bajaj Auto announced it was cutting its dividend by 10 per cent to Rs10. It believes, however, it can boost sales over the coming year through increasing its market share.

● Another sign of the impact of the recession on Indian industry was the decision by Hindustan Computers (HCL), the country's largest computer manufacturer, to reduce its 4,200 workforce by 15 per cent.

The group, which has just concluded a joint venture agreement with Hewlett-Packard, has seen output and sales fall because of import curbs and higher taxes.

Most of the cuts in the work-force have been made in the computer and CAD/CAM division. The company described them as "normal restructuring".

● Also indicative of what could be a growing trend, Majestic Auto, the motorcycle manufacturer, was declared technically bankrupt by the Board for Industrial and Financial Reconstruction, whose financial help it was seeking.

Majestic, which employs 1,200 people and makes mopeds, suffered three years of losses that absorbed its capital and reserves. The downturn in sales has postponed any recovery.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:10 pm on May 23

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	101¼	102¼	−¼	7.77
ALBERTA PROVINCE 9 3/8 95	600	103¾	104¼	+⅛	8.27
AUSTRIA 8 1/2 00	400	99¼	99¾		8.63
BANK OF TOKYO 8 3/8 96	100	99¼	99¾	+⅛	8.56
BELGIUM 9 1/8 92	400	101¼	102¼	−⅛	7.62
BFCE 7 3/4 97	150	98½	98¾	+⅛	8.07
BNP 8 5/8 94	300	102¼	102¾	+⅛	7.83
BP CAPITAL 9 5/8 93	150	102½	103½	−⅛	7.89
CANADA 9 96	1000	103¾	104¼		8.01
CARCO 9 1/4 96	650	99¼	99¾	−⅛	9.45
CCCE 9 1/4 95	300	104	104½	+⅛	7.96
COUNCIL EUROPE 8 96	100	99	99¼	+⅛	8.23
CREDIT FONCIER 9 1/2 99	300	104¼	105		8.62
DENMARK 0 98	250	55¼	55½	−⅛	8.62
DENMARK 8 1/4 94	150	101¼	101¾	+⅛	7.78
ECSC 8 1/4 96	193	100¼	100¾	+⅛	8.12
EEC 7 1/4 93	250	100	100½		7.22
EIB 7 3/4 96	250	98½	98¾	+⅛	8.11
EIB 9 1/4 97	1000	103½	104		8.48
ELEC DE FRANCE 9 98	200	102¾	103¼	+⅛	8.44
EUROFIMA 9 1/4 96	100	102¾	103¾	+⅛	8.48
EXPORT DEV CORP 9 1/2 98	150	104¾	105¼	+⅛	8.55
FINLAND 7 7/8 97	200	96¾	97½		8.63
FINNISH EXPORT 9 3/8 95	200	103¾	104¼	+⅛	8.27
FORD MOTOR CREDIT 9 1/2 93	300	103	103½	+⅛	8.05
GEN ELEC CAPITAL 9 3/8 96	300	103¾	104¼		8.40
GMAC 9 1/8 96	200	101¾	102¼	+⅛	8.68
HALIFAX 9 1/2 93	200	103¼	103¾	+⅛	7.74
IBM WORLD TRADE 7 5/8 93	150	99¾	100¼	+⅛	7.65
IND BK JAPAN FIN 7 7/8 97	200	97	97½	+⅛	8.54
INTER AMER DEV 7 5/8 96	200	97¼	97¾	+⅛	8.24
ITALY 8 1/2 94	1500	101¾	102¼		7.83
JAPAN DEV BK 8 94	150	100¾	101¼		7.66
KANSAI ELEC PWR 10 96	350	105¼	105¾	+⅛	8.65
LTCB 8 5/8 93	150	101¼	101¾		7.74
NEW ZEALAND 8 93	100	100¼	101¼	+⅛	7.65
NIPPON CRED BK 9 3/4 95	150	103¾	104¼	+⅛	7.86
NIPPON TEL & TEL 9 3/8 95	200	104¼	104¾	+⅛	8.01
NORDIC INV BANK 9 93	200	103	103¾	+⅛	7.39
ONTARIO HYDRO 11 5/8 94	200	108	109¼	−⅛	8.19
OSTER KONTROLLBANK 8 1/8 93	200	101¼	101¾	+⅛	7.27
PETRO-CANADA 7 1/4 96	200	95¼	96¼	+⅛	8.33
PRUDENTIAL RLTY SECS 0 99	365.216	51¼	51¾	+⅛	9.17
QUEBEC HYDRO 9 3/4 98	150	103¾	104¼	+⅛	8.99
QUEBEC PROV 9 98	200	100¼	100¾		8.94
SAINSBURY 9 1/8 96	150	102¼	102¾	+⅛	8.56
SAS 10 99	200	100	101¼	+⅛	9.98
SBAB 9 1/2 95	200	104¼	104¾	+⅛	8.21
STATE BK STH AUST 9 1/4 93	100	102	102¾	−⅛	7.91
SUMITOMO BK CAP MKT 9 3/8 93	150	103¼	103¾	+⅛	7.91
SWEDEN 8 1/8 94	150	101¼	101¾	+⅛	7.69
SWEDISH EXPORT 9 5/8 93	100	103¾	103¾		7.47
TOKYO METROPOLIS 8 1/4 96	200	99¾	100¼		8.29
WORLD BANK 8 3/8 99	1500	100	100¼		8.55
WORLD BANK 8 3/4 97	1500	102¼	102¾		8.30
XEROX CORPN 8 3/8 96	100	96¼	97¼	+1¼	9.15

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
DEUTSCHE BK FIN 5 5/8 96	750	88¼	89¼	+⅛	8.51
DEUTSCHE FINANCE 7 1/2 95	1000	97¼	97¾	−⅛	8.42
EEC 5 3/8 93	300	94¼	94¾	+⅛	8.98
EIB 5 3/4 98	400	86	86	+⅛	8.53
EIB 6 7/8 95	300	94¼	94¾	+1¼	8.49
EUROFIMA 6 1/4 98	400	87¼	87¾		8.61
FERRO DEL STAT 5 3/8 93	500	94¼	94¾		8.91
IND BK JAPAN FIN 5 5/8 96	200	87¼	87¾	+⅛	8.83
IND DEV BK INDIA 6 3/8 94	200	89	89	+⅛	10.17
INTER AMER DEV 7 1/4 99	300	92¼	92¾	+⅛	8.52
LUFTHANSA INT FIN 5 7/8 98	500	85¼	85¾	+⅛	8.67
MET EST & PROP INTL 7 99	150	85¼	85¼		9.69
NAT BK HUNGARY 8 96	200	89¾	90¼	−⅛	10.51
QUEBEC HYDRO 6 3/4 99	300	89	89	+⅛	8.74
SWEDEN 6 1/8 98	300	88¼	88¾	+⅛	8.48
VENEZUELA 8 1/4 93	100	96	96	+⅛	10.11
WORLD BANK 0 15	2000	16¼	16¾		7.64
WORLD BANK 5 3/4 96	300	87¼	87¾	−1¼	9.17
WORLD BANK 7 1/8 95	500	94¼	94¾	−1	8.94

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ASIAN DEV BANK 6 10	100	95	96	+½	6.45
AUSTRIA 4 5/8 98	100	91¼	92¼	+⅛	6.16
CHUJITSUYA 7 3/4 95	50	102½	103	−⅛	7.04
COUNCIL EUROPE 4 3/4 98	250	89½	90	−⅛	6.74
EEC 5 1/2 00	100	91½	92		6.73
EIB 5 3/4 93	100	97¼	98	+⅛	6.76
ELEC DE FRANCE 7 1/4 06	100	104½	105½		6.75
FINLAND 5 3/8 95	150	95¼	96		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINS INT 7 94 LFr	600	92¼	93¼	−½	9.76
KREDIETCORP 7 93 LFr	1000	94¾	95¼	−⅛	9.86
WORLD BANK 8 96 LFr	1000	96	97	+⅛	9.04
AMRO BANK 6 1/4 92 Fl	150	96¼	96¾		9.70
RABOBANK 5 3/4 93 Fl	150	94¼	95¼		9.23
ALBERTA PROVINCE 10 92 C$	500	100¼	100¾	+⅛	9.79
BCE INC 9 5/8 93 C$	300	99¼	99¾		10.05
BELL CANADA 10 5/8 99 C$	150	100	100½		10.61
BRITISH COLUMBIA 9 1/4 93 C$	150	99¼	99¾	+⅛	9.76
EIB 10 1/8 98 C$	130	99¼	100¼	−⅛	10.18
FORD CREDIT CANADA 10 94 C$	100	98¼	99	−⅛	10.54
GENERAL ELECT CAP 10 1/4 93 C$	175	100¼	101¼		9.82
MONTREAL TRUSTCO 8 1/2 92 C$	100	98¼	99	+⅛	10.63
ONTARIO HYDRO 10 7/8 99 C$	500	101¾	102¼	−⅛	10.50
QUEBEC PROV 10 1/2 98 C$	200	99¼	100¼		10.55
ROYAL TRUSTCO 10 1/4 93 C$	100	99¼	99¾	+⅛	10.75
SWEDEN 9 3/4 93 C$	250	100¾	101		9.46
BELGIUM 9 1/8 96 Ecu	1250	100¾	100¾		8.91
CNT 7 3/8 93 Ecu	250	95¼	96¼	−⅛	9.98
CREDIT LYONNAIS 9 96 Ecu	125	96¼	97½	−1	10.02
DENMARK 7 5/8 96 Ecu	250	90¾	92¼	−⅛	10.06
EEC 7 5/8 94 Ecu	200	96¼	97¼		8.98
EIB 10 97 Ecu	1125	104¼	104¾	−⅛	8.89
ITALY 10 3/4 00 Ecu	1000	109¼	109¾	−⅛	9.12
UNITED KINGDOM 9 1/8 01 Ecu	2750	100¾	101	−⅛	8.97
BMW FINANCE 14 1/2 92 A$	100	102¼	102¾	+⅛	11.48
COUNCIL EUROPE 13 93 A$	50	101¾	102¼		12.17
EKSPORTFINANS 12 3/8 95 A$	75	103¼	104		11.24
FORD CRED AUST 13 93 A$	50	100¼	101¼	−⅛	12.59
ICI 15 1/2 92 A$	100	103½	104¼	+⅛	11.65
MCDONALDS CANADA 15 95 A$	100	109¾	110¼	+⅛	11.87
NAT AUSTRALIA BANK 14 3/4 94 A$	150	107¼	107¾	+1	11.49
STATE BK NSW 14 1/4 99 A$	100	111¼	112¼	−⅛	11.92
VOLKSWAGEN INTL 13 94 A$	100	107¼	108¼	−⅛	11.68
ABBEY NATL TREAS 13 3/8 95 £	100	105¾	106¼		11.33
BARCLAYS JERSEY 9 1/2 93 £	250	97¼	97¾		11.10
BRITISH GAS 12 3/4 95 £	300	105	105¼		11.00
DEUTSCHE BK FIN 11 94 £	225	100¼	100¾		10.77
EIB 10 97 £	386.5	96¼	97¼	+⅛	10.77
FORD CREDIT FUNDING 9 5/8 93 £	50	96¼	96¾	+⅛	11.92
INTER AMER DEV 11 3/8 95 £	75	102	102¼	+⅛	10.73
ITALY 10 1/2 14 £	400	92¼	93¼	−⅛	11.40
LAND SECS 9 1/2 07 £	200	80¼	81¼	−⅛	12.31
LEEDS PERMANENT 9 1/4 93 £	50	96	96½	−⅛	11.59
NORWAY 10 1/2 94 £	200	99¼	99¾	+⅛	10.73
ROLLS-ROYCE 9 5/8 93 £	150	96¼	96¾	+⅛	11.64
SAINSBURY 10 7/8 93 £	100	99¼	99¾	+⅛	11.22
SKANDINAVISKA ENSK 13 1/8 95 £	100	105	105½	+⅛	11.39
WORLD BANK 11 1/4 95 £	100	101¾	102¼	+⅛	10.64
ABBEY NATIONAL 0 96 NZ$	100	57¼	58¼		10.82
TELECOM NZ O/S FIN 13 1/8 93 NZ$	75	105	106		10.52
AIDC 7 7/8 93 FFr	600	96¾	97¼	−⅛	9.38
CREDIT LYONNAIS 10 95 FFr	3200	101¾	102¼	−⅛	9.42
EURATOM 7 5/8 98 FFr	500	92¼	92¾	−⅛	9.13

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
ALBERTA PROVINCE 1/32 93	500	100.04	100.14	7.5938
ALLIANCE & LEICS 0.08 94 £	300	99.59	99.68	11.9550
BANCO ROMA 0.03 01	200	93.50	95.00	7.9363
BANCO SANTO SPIRITO 93	200	99.64	99.77	6.5000
BELGIUM 1/16 97 DM	500	99.95	100.08	9.1250
BFCE -0.02 96	350	100.06	100.16	6.1050
BNP 05	300	95.88	96.75	6.0625
BRITANNIA 1/10 96 £	150	99.23	99.42	11.9750
CCCE 06 ECU	200	99.88	99.96	9.4435
CITIZENS FED 0.15 96	100	99.35	99.70	7.0250
COMMERZBK O/S FIN 93	200	99.95	100.05	6.5625
DENMARK -1/8 96	1000	99.71	99.81	6.5938
DRESDNER FINANCE 1/32 98 DM	1000	99.76	99.86	9.2656
ELEC DE FRANCE 1/8 99	400	100.25	100.63	7.0000
FERRO DEL STAT 94	420	100.62	100.87	6.8750
HALIFAX 1/10 94 £	200	99.84	99.94	11.7250
HILL SAMUEL 1/4 PERP	75	82.01	85.00	8.5000
MITSUI FIN ASIA 1/8 96	100	99.73	99.83	7.0000
MORGAN (JP) 1/4 97	250	98.75	99.50	7.0625
NAT WEST FIN 3/16 05	400	92.88	94.38	6.5000
NEW ZEALAND 93	500	99.76	99.86	6.5000
QUEBEC PROV 01	300	96.80	97.05	6.1250
RENFE 98	500	99.91	100.01	6.0625
SOCIETE GENERALE 96	300	99.19	99.29	6.3125
STATE BK VICTORIA 0.05 99	125	98.60	98.85	7.8625
UNITED KINGDOM -1/8 96	4000	100.05	100.08	6.1875

CONVERTIBLE BONDS	Issued	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Business outlook at Intel 'excellent'

By Louise Kehoe in San Francisco

INTEL, the primary supplier of micro-processors and related semi-conductor devices to the personal computer industry, said its business outlook was "excellent", despite stagnant unit sales in the personal computer market.

Intel said its second-quarter earnings were likely to top analysts' projections, which average 94 cents per share.

Mr Craig Barrett, Intel executive vice-president, told shareholders at the annual meeting that Intel expects "double digit percentage revenue growth" in the current second quarter, over the first quarter's record $1.13bn.

Intel's revenue growth reflects its increasingly dominant role in the micro-processor market. Intel has been a significant beneficiary of the trend towards higher performance personal computers, powered by 32-bit micro-processor chips.

In past generations of personal computers, Intel competed with several "second source" suppliers of its 16-bit micro-processors, including Advanced Micro Devices. Intel has, however, refused to license other merchant chip makers to make its 32-bit microprocessors, thus gaining a virtual monopoly on the market.

AMD, which says that it aims to "break Intel's micro-processor monopoly" yesterday also issued a bullish forecast. Mr W. J. Sanders III, AMD chairman, said he expected the company to return to double digit pre-tax profit margins no later than the fourth quarter.

Mr Sanders said the company's sales of its recently introduced AMD 386 microprocessor, which is compatible with the Intel 386, were exceeding expectations. He also hinted that AMD is developing its own version of Intel's more advanced 486 microprocessor.

But Intel does not expect AMD's 386 microprocessor to have a significant impact upon its sales. Demand for Intel's microprocessors has been boosted by recent personal computer price reductions, the company said.

IBM selects McKinney to spearhead changes

By Alan Cane in London and Louise Kehoe in San Mateo

INTERNATIONAL Business Machines, the world's largest computer manufacturer, is taking increasingly profound steps to combat the deep structural changes in the worldwide computer industry which are badly damaging sales and profits.

Mr David McKinney, its top executive in Europe, has been recalled to IBM's Armonk, New York, headquarters to take up a special assignment which effectively gives him a lot of responsibility for determining the shape of the IBM of the future.

Reporting directly to Mr John Akers, IBM chairman, Mr McKinney will take responsibility for overseeing changes in the way IBM is organised, both internally and in its relations with other companies. He will focus on improving IBM's efficiency and reducing bureaucracy.

Over the past three years IBM has put in place plans to reduce headcount by almost 50,000, including the elimination of 8,000 managerial jobs.

David McKinney: recalled to company headquarters

It has strengthened its product lines and set up partnerships and alliances with thousands of smaller companies in the computer business.

Despite these changes, its first-quarter figures showed a loss and Mr Akers has been increasingly pessimistic about the immediate future.

Mr McKinney's new assignment is seen as a move to match the company's profile to the new market conditions resulting from improvements in technology and shifts to commodity products and services.

Mr McKinney was yesterday unavailable for comment. It is understood that he will also take responsibility for the company's communications, information systems and environmental staffs.

Mr Renato Riverso, formerly European director general operations, takes Mr McKinney's place as president of IBM World Trade and president director general of IBM Europe.

He was appointed director general, Europe, working in tandem with Mr McKinney, in January this year, in a management shuffle which indicated IBM's satisfaction with its Italian operations, often seen as a model of how IBM should trade in Europe.

AT&T close to leasing Sony its New York headquarters

By Martin Dickson in New York

AMERICAN Telephone & Telegraph appears to be close to leasing out its eight-year-old headquarters building in New York – one of the city's most debated pieces of modern architecture – to Sony, the Japanese electronics group.

The deal would consolidate Sony's presence in New York from a scattering of buildings into a 35-storey tower, sheathed in rosy granite, on Madison Avenue in mid-town Manhattan.

Both companies declined to comment. Real estate executives indicated a deal was in prospect but said Sony was still discussing the terms of an option to buy the building at a later date.

Sony, which has spent over $5bn buying up US entertainment companies over the past four years, would relocate some 2,500 staff to the tower, mainly from Sony Music Entertainment, formerly known as CBS Records.

AT&T announced in January it was trying to lease the building as a cost-saving measure, although it said then it intended to retain three floors for executives and board meetings.

The tower, costing $200m to build in 1984, houses some 1,200 workers, and was completed only shortly before AT&T was broken up by the Federal courts, which spun off seven regional Bell operating companies.

AT&T remained the largest long-distance telephone operator in the US.

If the deal goes through, AT&T would have to return to the city some of the sizeable tax breaks it received for constructing the building and using it as its headquarters. However, AT&T insisted yesterday it would not be deserting New York. If the building was leased, its staff would be moved to other sites within the city.

Over the past 20 years, New York has suffered a steady exodus of large companies seeking cheaper headquarters locations, and there are fears the city's budget crisis could accelerate the process.

The AT&T building, designed by the noted architect Mr Philip Johnson, is widely regarded as New York's first post-modern skyscraper since it combines modern construction with a classical design.

The pediment is similar to the top of a piece of 18th century furniture, causing the building to be known as the "Chippendale skyscraper".

Canada Packers triples earnings

By Bernard Simon in Toronto

CANADA PACKERS, the Toronto-based food processor controlled by Hillsdown Holdings of Britain, tripled its first-quarter earnings, but cautioned that a less spectacular increase was likely for the year as a whole.

The company, shortly to be renamed Maple Leaf Foods, said income for the first quarter was C$10m (US$8.77m), or 15 cents a share, against C$3.1m, or 5 cents, a year earlier.

The present Canada Packers was created last year from a merger of the original Canada Packers and Maple Leaf Mills, and the 1990 figures are a pro forma representation of their combined performance.

The jump in first-quarter earnings was largely due to costs stemming from last year's closure of an abattoir in Burlington, Ontario.

Operating income rose more modestly to C$21.8m from C$19.3m. The closure of the Burlington plant also contributed to a 16 per cent fall in sales to C$806.4m. The sale of Canada Packer's dairy and peanut butter businesses has also shrunk revenues.

Mr David Newton, chief executive, told the annual meeting that the company's improved balance sheet allowed it to consider sizeable acquisitions without undermining its debt-to-equity ratio.

GTE offshoot to axe 4,900 jobs

GTE Telephone Operations, a unit of GTE of the US, is to cut its workforce by about 4,900 over the next four years as a result of a recent merger with the telecoms group Contel, Reuter reports.

The GTE offshoot, based in Irving, Texas, has about 115,000 employees, including Contel workers.

"The reductions will be accomplished mainly through normal attrition and early retirement plans," said Mr Robert Brand, director of media relations of GTE Telephone Operations.

French bonds fall again as franc continues to wobble

By Stephen Fidler in London and Patrick Harverson in New York

FRENCH government bonds fell again yesterday amid fears that the government may have lost its best opportunity to cut interest rates and worries among some international investors about the new French government.

Bond prices were down by as much as a ½-point. Some investors believe that a weak franc may preclude an interest rate cut to follow that by Spain earlier in the week. Meanwhile, international holders of bonds – although perhaps dominated by trading accounts – continue to sell bonds amid concerns about the economic policy of Mrs Edith Cresson, the new prime minister.

The Finance Ministry, however, said that the previous day's rumours about the introduction of a possible withholding tax were groundless.

This weakness opened up a yield differential of about 64 basis points in the 10-year maturities against the German market. This compared with 54 on Wednesday and as little as 44 about two weeks ago.

The German market was itself dormant at the long end, with most bond market activity concentrated in the four-year area. Here, the Bundesbank sold DM4.55bn of paper, newly-framed to attract international investors, keeping DM1.55bn for its own account at an average yield of 8.67 per cent. The sale was viewed as a success.

Otherwise, interest was focused at the short end of the market. Because of technical factors associated with the end of the bank reserve period at the month end and market holidays, call money rate dropped as low as 7.3 per cent, way below the Bundesbank's targets.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13 500	09/92	103-25	+03/32	10 33	10 50	10 63
		9 000	03/00	92-30	+01/32	10 23	10 32	10 14
		9 000	10/08	91-18	-01/32	10 03	10 09	9 85
US TREASURY *		8 000	05/01	99-18	+02/32	8 06	8 11	8 12
		8.125	05/21	96-12	+02/32	8 27	8 32	8 28
JAPAN	No 119	4.800	6/99	88 4841	+0.048	7 03	7.05	7 09
	No 129	6 400	03/00	98 7465	+0 083	6 63	6 62	6.71
GERMANY		9.000	01/01	104.0500	-0.010	8 35	8 42	8 33
FRANCE	BTAN	9 000	02/96	99.9355	-0.224	8 99	8 93	9.05
	OAT	9 500	01/01	103.0800	-0.580	8 99	8 85	8 83
CANADA *		9.750	06/01	100 8500	-0 400	9.62	9 63	9 68
NETHERLANDS		8 500	03/01	99 3400	+0 030	8 59	8 63	8.59
AUSTRALIA		13 000	07/00	114 0554	-0 829	10 56	10 59	11 00
BELGIUM		10 000	08/00	104 8500	-0 150	9.18	8 97	8 94

London closing. *denotes New York morning session
Yields: Local market standard. Prices. US, UK in 32nds, others in decimal

Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

■ THE UK government bond market had a dull day, but there were some hopes that it could be more exciting today. Money market rates are now discounting a ½ percentage point cut in interest rates by the Bank of England this morning.

Rumours also emerged that the Bank might go for a 1 percentage point cut and decide at the same time that it would move sterling into the narrow band of the European exchange rate mechanism.

There were also expectations that the Bank might announce in the afternoon a new tap stock for sale in late June. Although earlier market expectations were for a sale of medium-dated stock, now there are some expectations of a very long-dated stock, perhaps of 25 to 30 years. This may have weighed on the long end of the market, which was up only $\frac{1}{8}$ point yesterday, while short-dated stocks managed around $\frac{1}{16}$ point.

■ A MIXED bag of economic statistics left US Treasury prices firmer at the short end but weaker at the long end yesterday morning.

At midday, the benchmark 30-year government bond was down $\frac{1}{16}$ at 98$\frac{5}{32}$, to yield 8.275 per cent. The two-year note, however, was up $\frac{1}{32}$ at 100, yielding 6.733 per cent.

The most important set of economic data released yesterday was the durable goods orders for April, which were up 2.9 per cent compared with a year earlier. This would normally have been bad news for the market, and did lead to an early sell-off of bonds, but prices at the short end perked up as dealers discovered that non-defence capital goods orders – regarded as a useful leading indicator – were down 10.3 per cent on the month.

Insurers form European mutual alliance

INSURANCE companies from the Netherlands, Sweden and Denmark have announced what they claim is Europe's first three-way international alliance involving mutual ownership across national frontiers, writes Hilary Barnes in Copenhagen.

The companies, each the third-largest insurer in their markets, are the Dutch mutual AVCB, Sweden's mutual Wasa and Denmark's Topdanmark, which de-mutualised a few years ago. They had total income last year of about DKr30bn and equity capital of DKr20bn. They will set up a jointly-owned holding company as the base for the expansion of international business.

The holding company will in turn have substantial shareholdings in each of the three alliance partners. The three see the alliance as the best way for medium-sized insurance groups to develop business internationally.

INTERNATIONAL CAPITAL MARKETS

SA group in DM150m placing

BHF-Bank in Frankfurt is arranging a DM150m private placement with German investors to refinance a public bond issue made in 1984 by the South Africa Department of Post and Telecommunications, writes Simon London.

South African borrowers are expected to refinance up to $550m equivalent of maturing bonds with private placements in the German market this year.

A BHF-Bank official said that the purpose of the transaction was to refinance a DM150m bond issue which matures on June 16. No new money is being raised, and placement is concentrated among German retail investors, he added.

Of the 20 outstanding public bond issues made by South African borrowers in the 1980s, nine mature this year.

Other issues which may be refinanced include a DM50m issue by the Industrial Development Corporation of South Africa and a $100m issue by the Electricity Supply Commission, both of which mature in July.

The majority of South African Eurobond issues were denominated in D-Marks and a total of DM630m of paper falls due in 1991.

While bankers are reluctant to talk about the deals in the open, they conceded that most of the maturing paper is being successfully refinanced through private placements.

The success of these deals raises the question whether a public bond issue could be launched by a South African borrower in the international market. The last issues were made in 1985.

"These borrowers have had some good experiences in the German market and a new high-yielding issue would certainly attract investors," commented one syndicate manager at a leading German bank in Frankfurt.

However, while private placements can be arranged, borrowers may see little advantage in making public issues.

"Until sanctions are lifted I see little chance of public deal," said another Frankfurt-based banker.

Overwhelming demand for Eurofima Es7bn issue

By Simon London

NEW issues denominated in Portuguese escudos and Swedish krona met with strong demand yesterday, underlining that many investors believe European bond yields will continue to converge.

For believers in convergence, the Portuguese currency offers the highest yields and therefore the best value.

Yesterday Eurofima launched a Es7bn five-year deal, lead managed by Banco Totta & Acores. The paper carries a coupon of 13⅞ per cent and was priced at 101¾ but soon rose to 104¾ bid, buoyed by strong demand from institutional investors.

Participants in the deal commented that the response from investors was overwhelming. Many firms noted that demand was now coming from outside

INTERNATIONAL BONDS

Europe, notably from US institutions. The biggest hurdle to the further development of the sector is the limited supply of new bonds. Borrowers require approval from the Portuguese authorities and so far only supranational institutions have tapped the market. The European Investment Bank is expected to launch an issue next month. The rarity of currency and interest-rate swaps opportunities also limit the number of potential borrowers.

Sweden's decision a week ago to link its currency to the European currency unit (Ecu) has fuelled expectations of lower interest rates and higher bond prices.

ABB Finance, the financing arm of Asea Brown Boveri, the Swiss/Swedish industrial group, took the opportunity to raise SKr300m with a five-year issue. The deal was lead managed by Deutsche Bank Capital Markets and carries a 10.5 per cent coupon. Bonds were issued at 99.75 and traded at less 1⅛ bid, inside full fees of 1⅞ per cent. At this level the yield is 10.97 per cent.

The Council of Europe satisfied a requirement for shorter term funding with a $200m two-year deal lead managed by Warburg Securities. The bonds carry a 7¼ per cent coupon and were re-offered to investors at a fixed price of 99.975, where the paper yields 35 basis points over US Treasury bonds.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Council of Europe(a)†	200	7¼	100.95	1993	1⅛/0.1	SG Warburg Secs.
Nippon Chemi-Con Corp(b)‡†	80	(b)	100	1996	30/20bp	Nikko Secs.
FRENCH FRANCS						
Credit du Nord(c)†	300	9¼	99.80	1999	35/20bp	Paribas Cap.Mkts.
SWEDISH KRONOR						
ABB Finance Inc.(a)†	300	10½	99¾	1996	1⅞/1¼	Deutsche Bk Cap.Mkts.
ESCUDOS						
Eurofima(a)†	7bn	13⅞	101¾	1996	1⅜/1⅛	Deutsche Bk d'Investimento
SWISS FRANCS						
Memorial Art Ohnoya(a)★★†	10	7¼	99¾	1996	-	Dai-Ichi Kangyo Bk

★★Private placement. §Convertible. ‡With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Coupon pays 35bp over 6-month Libor. Non-callable. c) Multiplier issue. Investors have option, each year, to reinvest coupon payments in further fungible bonds, at par. Non-callable.

Soviet-owned bank shrinks in size and asks for help

By Stephen Fidler, Euromarkets Correspondent

MOSCOW Narodny Bank, the Soviet-owned bank incorporated in London since 1919, sharply contracted in size last year and turned once again to its shareholders for financial support, according to the annual report.

The banks' assets fell to £1.80bn at the end of last year from £2.54bn the year before. According to officials at the bank, this contraction – undertaken voluntarily – has fallen further this year, towards £1.5bn.

The bank shrank through the sale of performing assets and the running down of inter-bank deposits and borrowings.

Moscow Narodny also received help from one of its main shareholders to cover a £26m provision required under the Bank of England's rules to cover its exposure to Bulgaria, which stopped servicing its debt last year.

The shareholder, Vneshekonombank, the Bank for Foreign Economic Affairs, paid the bank the full amount of the loss which would have arisen because of the provision.

Last year, shareholders contributed to a £37m capital increase for the bank – taking the combined ownership of Vneshekonombank and the State Bank of the Soviet Union (Gosbank) to over 50 per cent. In the previous year, a shareholder took over the bank's problem sovereign loans.

The annual report also says that the book value of the bank's freehold properties – buildings in the City of London and Singapore – exceeds the market value by 11 per cent. However, the directors regarded the deficit as "temporary, reflecting the short-term decline in the [UK] economy, and do not consider a write-down in book value to be appropriate". Land and buildings are assessed at £57.8m in the report.

In 1990, net banking profit rose to £22.02m, from £21.54m, helped by a rise in fee income. But after transfers to provisions and inner reserves, and a £7m tax charge, net profit fell to £100,000 from £290,000.

French give strips the go ahead

By George Graham in Paris

MR Pierre Bérégovoy, the French finance minister, yesterday opened the way to a new market for strips by authorising for the first time the repackaging of French government bonds.

J.P. Morgan, the US bank which is a primary dealer in the French government bond market, immediately announced that it was launching the first strips operation.

It will strip the longest-dated French government bond, OAT 8.5 per cent 2019.

A strips operation involves repackaging a bond into its separate interest rate and capital components.

The result is a series of zero-coupon securities representing the interest payments due over the life of the bond, and a larger zero-coupon security representing the final capital repayment.

Pierre Bérégovoy: allowed the repackaging of bonds

By enabling investors to select a security with a maturity exactly corresponding to their own requirements, strips can expand demand for a bond and allow borrowers to issue at slightly lower yields.

The finance ministry said yesterday that the opening of the strips market should therefore result in savings on public debt servicing costs, although officials indicated these were likely to amount to only a few basis points.

In the US, 30-year interest strips tend to trade at yields 10 to 40 basis points lower than the theoretical yield curve of the original bond, although shorter maturities can be cheaper than the curve.

The larger size, and therefore liquidity, of principal strips tends to make them more expensive still, at 20 to 50 basis points.

The strips market in the US dates back to 1981 and 1982, when investment banks developed "Tigers" (or Treasury Investment Growth Receipts) and "Cats" (Certificates of Accrual on Treasury Securities) by placing Treasury bonds in a trust and issuing new securities guaranteed by these bonds.

In 1984, the US Treasury took over this market by launching the Separate Trading of Interest and Principal of Securities programme.

This programme removed the risk that the trusts might default by making the strips direct obligations of the government, just like the original bonds on which they were based.

The French rules are closely modelled on the US, where over $120bn of bonds have already been stripped.

Stripping will be carried out by the Sicovam, the French stock registry centre, in partnership with one or more primary dealers.

The strips will themselves carry the state's guarantee.

French Finance Ministry officials say this form of market provides better liquidity and makes it easier to put the strips back together again to form the original bond.

The trust form of strips, which was recently used on the 2011 Ecu bond issued by the Italian government, is simpler to organise but offers less liquidity.

The OAT 2019 selected for the first French strips operation has FFr46bn outstanding and is the longest French government bond on offer.

In the US, long issues are the most popular strips candidates, and over half of outstanding 30 year Treasury bonds have been stripped.

Government officials will encourage banks to strip bonds that are still being issued, to benefit from any reduction in yield.

Bankers contend that the principal advantage of the strips is in allowing pension funds and insurance companies with long-term liabilities to tailor their cash flow exactly to their needs.

But J.P. Morgan argues that strips will also attract bullish investors by offering greater leverage over long periods than ordinary bonds.

If bond market yields drop by 25 basis points, for example, Morgan calculates that the investor would get an additional 2.5 per cent return on the OAT 2019 bond, compared with a 6.77 per cent return on the 2019 principal strip.

This leverage will also attract foreign investors, by reducing their exposure to exchange rate risk.

Strips protect investors against "reinvestment risk", Morgan says.

The quoted yield on a bond assumes that interest payments can be reinvested at the same rate, but if interest rates fall, the overall yield actually pocketed will be less than this.

Swiss tax change 'may develop money market'

THE Swiss National Bank (SNB) hopes that moves to abolish a securities turnover tax will help develop a Swiss money market, Reuter reports from Zurich.

If a federal tax reform package is approved in the June referendum, it was conceivable that Switzerland could soon have tradeable short-term debt certificates akin to US Treasury bills, said Mr Jean Zwahlen, a director of the SNB.

Currently Switzerland's only money-market instrument is paperless money-market claims which are relatively illiquid and technically awkward to trade.

As a result, the Swiss franc money market exists largely abroad, in the form of Euromarkets trading.

Mr Zwahlen noted that the lack of an efficient money market deprived the SNB of an extra channel to apply monetary policy, in addition to its traditional methods of short-term currency swaps and the placement of federal funds with commercial banks in the form of sight deposits.

If the SNB's idea of Treasury bills – Schuldbuch-Schatzanweisungen – comes about, Mr Zwahlen said these would be much simpler to trade than the current money-market claims.

Mr Markus Lusser, SNB president, noted Switzerland was unlikely to have the large public debt that was the basis for more developed money markets.

Setback for European cross-border share trading

By Richard Waters

STOCK market authorities from the European Community's 12 member-states agreed yesterday to take a significant step back from their planned joint venture to support cross-border share trading.

The exchanges, through the Federation of Stock Exchanges in the EC, first agreed nearly two years ago to build a joint information network to carry share prices and company news concerning leading European companies. Their intention was to create the basic infrastructure on which a Europe-wide share trading system could be developed.

At a meeting in Athens yesterday, though, the exchanges are understood to have agreed that their earlier plans were too ambitious and that more research and planning needs to be done.

The setback follows months of disagreement between the exchanges over the purpose of the joint venture. In an announcement today, they are expected to play down these disagreements and emphasise their continuing commitment to work together on ways of supporting cross-border trading.

The company set up to develop the network, Euroquote, is to continue in existence. However, the exchanges will not now subscribe the Ecu12.8m of capital which had been due in the coming weeks.

WORLD COMMODITIES PRICES

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section

		Thursday May 23 1991						Wed May 22	Tue May 21	Mon May 20	Year ago (approx)
		Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1991 to date	Index No.	Index No.	Index No.	Index No.
1	CAPITAL GOODS (186)	826.64	+0.4	11.28	5.88	10.88	15.76	823.71	828.40	826.29	869.67
2	Building Materials (24)	1074.76	+0.7	10.75	5.77	11.43	22.01	1067.77	1081.37	1082.91	1082.31
3	Contracting, Construction (31)	1305.86	+0.2	9.24	6.17	14.19	30.61	1303.09	1319.30	1325.48	1357.33
4	Electricals (10)	2355.93	+0.3	11.16	5.68	11.41	61.85	2349.67	2356.25	2359.74	2513.21
5	Electronics (25)	1761.96	-0.1	8.89	5.09	14.98	7.81	1763.65	1768.13	1748.76	1848.12
6	Engineering-Aerospace (8)	427.54	+0.4	16.33	5.86	7.37	10.60	426.01	427.82	428.45	469.18
7	Engineering-General (47)	438.50	+0.4	12.76	5.99	9.47	8.43	436.88	437.07	435.73	477.18
8	Metals and Metal Forming (8)	445.76	+0.3	20.05	7.74	6.15	2.31	444.58	446.34	447.84	491.11
9	Motors (13)	326.19	+0.4	12.39	7.45	9.53	9.89	324.82	325.42	322.27	349.24
10	Other Industrial Materials (20)	1483.65	+0.4	9.53	5.48	12.36	31.84	1477.49	1482.95	1474.88	1571.56
21	CONSUMER GROUP (188)	1454.63	+0.7	8.20	3.73	15.04	18.58	1444.93	1449.34	1441.96	1257.56
22	Brewers and Distillers (22)	1805.29	+0.7	8.42	3.67	14.61	21.60	1792.67	1806.31	1797.16	1501.45
25	Food Manufacturing (20)	1158.72	....	9.92	4.24	12.42	18.39	1158.68	1162.27	1153.26	1063.25
26	Food Retailing (16)	2750.42	+0.3	7.94	3.04	16.46	30.32	2742.16	2763.53	2737.94	2418.96
27	Health and Household (21)	3319.30	+1.2	5.79	2.59	19.74	29.05	3279.21	3259.81	3262.37	2550.00
29	Hotels and Leisure (23)	1298.60	+0.3	10.46	5.27	11.28	23.57	1295.14	1311.27	1311.50	1421.81
30	Media (26)	1456.10	+1.1	9.40	4.79	13.56	22.11	1440.82	1443.33	1440.87	0.00
31	Packaging, Paper & Printing (17)	669.07	+0.2	8.10	4.91	15.47	11.81	667.93	668.26	658.11	585.22
34	Stores (33)	904.73	+0.7	8.80	4.04	14.85	12.50	898.11	902.90	892.17	781.93
35	Textiles (10)	532.40	-0.2	10.42	5.87	11.86	9.55	533.65	534.96	532.72	493.58
40	OTHER GROUPS (107)	1232.98	+0.9	9.94	5.11	12.37	11.16	1221.61	1228.91	1220.05	1150.57
41	Business Services (12)	1229.11	+0.3	10.79	5.30	11.38	13.23	1224.99	1231.97	1220.92	0.00
42	Chemicals (21)	1353.85	+1.2	8.44	5.31	13.46	28.71	1337.81	1340.73	1339.00	1244.98
43	Conglomerates (10)	1460.64	+0.2	10.43	7.11	11.57	17.49	1457.93	1486.39	1486.77	1596.51
44	Transport (13)	2201.87	+0.1	11.18	4.72	11.04	26.91	2199.20	2210.56	2190.93	2227.18
45	Electricity (14)	1239.71	+0.3	11.18	5.38	11.20	0.00	1236.43	1248.74	1212.91	0.00
46	*Telephone Networks(4)*	1489.71	+2.1	10.24	4.03	12.74	0.00	1458.55	1459.90	1452.45	1180.69
47	Water(10)	2471.80	+0.7	13.83	5.55	8.08	39.69	2455.46	2464.13	2445.95	1926.01
48	Miscellaneous (23)	1880.06	+0.3	6.29	4.96	20.35	22.21	1874.05	1884.75	1872.93	1749.94
49	INDUSTRIAL GROUP (481)	1232.47	+0.7	9.37	4.60	13.13	15.77	1223.99	1229.53	1223.05	1140.52
51	Oil & Gas (19)	2339.57	-0.2	10.76	5.69	12.10	50.59	2345.00	2368.22	2348.53	2259.14
59	500 SHARE INDEX (500)	1327.16	+0.6	9.56	4.74	12.99	18.51	1319.59	1326.46	1318.95	1234.32
61	FINANCIAL GROUP (97)	795.65	+0.6	-	5.98	-	18.07	790.90	799.97	796.10	776.01
62	Banks (9)	892.84	+1.4	7.73	6.20	18.77	22.63	880.42	887.57	880.13	815.72
65	Insurance (Life) (7)	1445.75	+0.1	-	5.72	-	41.64	1443.81	1464.20	1460.85	1357.98
66	Insurance (Composite) (6)	666.25	+0.5	-	6.58	-	20.23	663.10	675.53	672.41	650.74
67	Insurance (Brokers) (8)	1070.01	-0.5	7.37	6.28	17.66	21.24	1075.54	1091.44	1082.36	1066.18
68	Merchant Banks (7)	422.39	....	-	4.80	-	4.47	422.58	423.91	426.26	440.84
69	Property (40)	966.29	-0.3	6.60	5.00	20.68	7.90	969.06	983.47	982.38	1076.35
70	Other Financial (20)	284.23	-0.1	9.24	6.38	13.45	4.75	284.64	284.52	284.59	308.43
71	Investment Trusts (70)	1212.17	+0.1	-	3.46	-	15.60	1211.21	1211.29	1203.50	1196.97
99	ALL-SHARE INDEX (667)	1198.71	+0.6	-	4.87	-	18.11	1191.99	1199.03	1192.35	1124.61

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	May 22	May 21	May 20	May 17	May 16	Year ago
FT-SE 100 SHARE INDEX‡	2482.8	+16.9	2484.6	2468.6	2465.9	2482.7	2466.6	2453.9	2471.9	2277.1

FIXED INTEREST

	PRICE INDICES	Thu May 23	Day's change %	Wed May 22	Accrued interest	xd adj. 1991 to date
	British Government					
1	Up to 5 years (28)	121.53	+0.09	121.42	2.15	4.29
2	5-15 years (29)	130.80	+0.02	130.78	2.47	5.15
3	Over 15 years (8)	137.23	+0.01	137.22	2.05	5.02
4	Irredeemables (6)	149.92	+0.07	149.83	0.90	6.11
5	All stocks (70)	130.07	+0.04	130.01	2.34	4.92
	Index-Linked					
6	Up to 5 years (1)	159.11	....	159.10	0.08	2.72
7	Over 5 years (10)	147.24	-0.05	147.31	0.95	1.52
8	All stocks (11)	148.13	-0.04	148.20	0.92	1.56
9	Debs & Loans (56)	109.45	+0.03	109.41	2.03	4.30

	AVERAGE GROSS REDEMPTION YIELDS		Thu May 23	Wed May 22	Year ago (approx.)
	British Government				
1	Low	5 years	9.14	9.15	11.32
2	Coupons	15 years	9.76	9.74	11.03
3	(0%-7¾%)	20 years	9.91	9.89	10.92
4	Medium	5 years	10.31	10.32	12.37
5	Coupons	15 years	10.20	10.20	11.51
6	(8%-10¾%)	20 years	10.12	10.12	11.11
7	High	5 years	10.48	10.50	12.48
8	Coupons	15 years	10.37	10.36	11.82
9	(11%-)	20 years	10.26	10.25	11.42
10	Irredeemables	†	10.16	10.16	10.90
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.08	4.08	5.29
12	Inflation rate 5%	Over 5 yrs.	4.21	4.21	4.17
13	Inflation rate 10%	Up to 5 yrs.	3.16	3.15	4.21
14	Inflation rate 10%	Over 5 yrs.	4.02	4.01	3.99
15	Debs &	5 years	11.88	11.88	14.53
16	Loans	15 years	11.65	11.65	13.50
17		25 years	11.45	11.45	13.07

‡Opening index 2468.6; 9 am 2471.0; 10 am 2475.1; 11 am 2476.7; Noon 2475.4; 1 pm 2476.6; 2 pm 2476.9; 2.30 pm 2477.7; 3 pm 2480.1; 4.10 pm 2482.8; (a) 2484.6 (b) 2468.6 † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE includes details of the information used in the construction of these indices. These are available by subscription from FINSTAT, 071-925 2323. CONSTITUENT CHANGES: Manchester Ship Canal (44) has been deleted and replaced by Sinclair (William) Holdings (48).

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	28	22	34
Corporations, Dominion and Foreign Bonds	0	6	14
Industrials	272	234	1,023
Financial and Properties	96	124	520
Oils	19	26	48
Plantations	0	1	9
Mines	19	43	101
Others	62	40	71
Totals	496	496	1,820

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am't Paid up	Latest Renunc Date	1991 High	1991 Low	Stock	Closing Price	+or-	Net Div	Times Cov'd	Gross Yield	P/E Ratio
100	F.P.	-	101	100	Aberforth Split Lev Cp	101		-	-	-	-
100	F.P.	-	108	100	Do. Income 10p	106		M9.0	-	11.3	-
-	F.P.	-	207	200	Do. Units 10p	207		-	-	-	-
‡	F.P.	-	185	185	Brockhampton 10p	185		-	-	-	-
‡	F.P.	-	33	33	Do. A Warrants 10p	33		-	-	-	-
‡	F.P.	-	140	140	Do. Non/Vtg. A 10p	140		-	-	-	-
100	F.P.	-	109	104	Contra-Cyclical Inc 1p	107		-	-	-	-
50	F.P.	-	56¼	54¼	Do. Zero Div. Prf. 50p	55¼		-	-	-	-
25	F.P.	-	27	22½	Do. Capital	26½		-	-	-	-
100	F.P.	-	103	100	Drayton Blue Chip Tst.	102		-	-	-	-
100	F.P.	-	109	105	Do. Zero Prf. £1	109	+½	-	-	-	-
65	F.P.	-	66	65	EFM Income Tst.	66		-	-	-	-
35	F.P.	-	38¼	37	Do. Zero Div. Prf.	38¼	+½	-	-	-	-
†	F.P.	-	41	33	Globe Petroleum	40		-	-	-	-
Ir230	F.P.	-	245	217	Greencore Ir£1	220	-3	u06%	5.9	1.8	9.3
§100	F.P.	-	123	116	Headline Book Publ'g. 10p	123		12.5	2.8	2.7	17.7
-	F.P.	-	9	6	MMI Warrants	9		-	-	-	-
†	F.P.	-	748	691	Manpower Inc. 1c	748	+29	-	-	-	-
125	F.P.	-	127	113	Mirror Grp. Newspapers	119	+1	R6.55	1.7	7.3	10.7

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1991 High	1991 Low	Stock	Closing Price £	+ or -
‡	F.P.	-	107p	107p	Brockhampton N/V 9½pc Rd Prf 1996 £1	107p	
100p	F.P.	-	46p	42½p	‡Clearmark 6pc Cv. Red. Prf.	46p	
100	F.P.	-	103¾	99¾	Hanson 9½pc Cv. Bd.	100	+⅞
100p	F.P.	-	105p	80p	Lilleshall 9pc Cv. Rd. Prf. £1	105p	
100	F.P.	-	103¼	98¾	RMC Capital 8¾pc Cnv. Bds. 2006	101	
‡100p	Nil	-	8½pm	4pm	Slough Ests 8¼p (Net) Cnv. Rd. Prf.	8pm	
100	F.P.	-	103½	99	Tarmac 9½pc Cnv. Cap. Bds. 2006	102¼	+1

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1991 High	1991 Low	Stock	Closing Price p	+ or -
97	Nil	-	6pm	2½pm	‡Allied Leisure 5p	2½pm	-1
250	Nil	-	42pm	37pm	Argyll Group	37pm	
112	Nil	-	13pm	10pm	BBA Group	11pm	
87	Nil	-	25pm	16½pm	Bank of Scotland	17pm	+½
132	Nil	-	16½pm	12pm	Bibby (J) 50p	12½pm	
8	Nil	-	3pm	1pm	‡Blagden Hldgs. 1p	1pm	
90	Nil	-	7pm	4pm	Cannon Street Invs. 20p	4pm	-1
55	Nil	-	3pm	3pm	Cussins Property 20p	3pm	
44	Nil	-	2½pm	1½pm	Guinness Mahon 10p	1½pm	
33	Nil	-	7pm	¾pm	Kunick 10p	2½pm	
130	Nil	-	43pm	26pm	Lloyds Chemists 5p	27pm	
130	Nil	-	2pm	¾pm	Lovell (Y.J.)	2pm	+½
225	Nil	-	41pm	21pm	McAlpine (Alfred)	35pm	+2
6	Nil	-	2½pm	1½pm	Porth Group 5p	2pm	
75	Nil	-	15pm	5pm	Pressac 5p	6pm	
127	Nil	-	20pm	15pm	Scapa Group	15pm	
72	Nil	-	10pm	8pm	‡Synapse Cmptrs. Sers 5p	8pm	
140	Nil	-	20pm	11pm	T & N £1	12pm	+1
27	Nil	-	2pm	2pm	TR High Inc. Sub. 1p	2pm	
100	Nil	-	2½pm	2½pm	TR High Income	2½pm	
200	Nil	-	40pm	28pm	Taylor Woodrow	35pm	-1

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1990-91. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ‡ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings May 7
- Last Dealings May 24
- Last Declarations August 8
- For settlement August 19

For rate indications see end of London Share Service

Calls in **Baris**, **Budgens**, **Macarthy**, **TACE** and **Tuskar Res.** Put and call in **Premier Cons.** and **Sutcliffe Speakman**.

LONDON TRADED OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied Lyons (*551)	500	64	85	92	5½	12	17
	550	33	53	62	22	30	36
	600	12	28	40	55	60	62
ASDA (*111)	100	14	16	19	2	4	6
	110	7½	10	12	5	8½	9½
	120	3	6	9	11½	15	16
Brit. Airways (*161)	140	22	25	28	3	5	7½
	160	7	13	17	11	14½	17
	180	2	6½	9	28	30	31
SmKl Beecham A (*784)	750	55	79	98	12	21	26
	800	26	50	70	33	43	48
	850	10	30	47	70	71	73
Boots (*370)	330	42	51	56	4½	7½	10
	360	17	31	38	13	18	20
	390	5½	16½	24	33	36	37
B.P. (*322)	300	31	38	42	3½	6½	9
	330	12	19	25	14	19	21
	360	3½	8	13	40	39	40
British Steel (*128)	120	9½	10½	13	5	6½	8½
	130	3	5½	7½	11¼	13½	14½
Bass (*971)	950	-	-	95	-	-	42
	977	33	65	-	37	48	-
	1000	-	-	68	-	-	69
C & Wire (*512)	460	60	72	-	5	10	-
	500	29	45	58	16	24	27
	550	8	22	35	48	53	58
Courtaulds (*393)	360	35	47	55	6	11½	14
	390	15	29	37	19	25	27
	420	6	17	25	42	44	46
Com. Union (*490)	460	43	50	63	5	13	16
	500	18	27	40	22	30	34
	550	3½	12	20	63	65	68
Fisons (*475)	420	63	78	88	2½	5½	8
	460	32	49	60	11	16	19
	500	13	27	38	32	36	39
GKN (*342)	300	50	53	-	2½	7	-
	330	26	32	40	9	17	20
	360	12	17	26	25	35	37
Grand Met. (*775)	700	94	109	-	3½	12	-
	750	51	72	91	14	25	32
	800	25	43	61	39	49	54
I.C.I. (*1248)	1200	95	120	155	28	50	57
	1250	65	92	127	49	70	75
	1300	40	70	103	75	96	99
Kingfisher (*483)	460	40	55	70	11	18	22
	500	18	33	50	28	37	40
	550	5½	16	29	70	72	73
Ladbroke (*267)	240	33	42	-	3	6½	-
	260	19	27	33	7½	14	16
	280	10	17	23	19	24	27
Land Secs (*517)	500	21	37	45	12	17	21
	550	3½	14	23	51	52	54
	600	1½	4½	-	100	100	-
M & S (*251)	240	20	29	34	5	7	9
	260	8½	16	23	14	15½	18
Sainsbury (*377)	360	30	43	51	6½	10	14
	390	12	24	32	20	23	26
Shell Trans. (*505)	500	28	40	50	15	23	27
	550	8	16	28	47	50	52
Storehouse (*101)	100	6	9½	12	7	9	11
	110	3	6	8	15	16	17
Trafalgar (*240)	240	15	26	30	12	18	25
	260	8	17	21	25	29	31
Utd. Biscuits (*366)	360	21	32	40	10	16	19
	390	8	16	25	27	33	35

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Unilever (*740)	700	57	78	95	7	13	18
	750	24	47	64	28	34	40
Ultramar (*306)	300	21	28	38	8½	15	17
	330	6½	15	23	28	32	34
Option		**May**			**May**		
Elec. Pkg. (*£2230)	1850	400	-	-	20	-	-
	1900	350	-	-	20	-	-
Southern Elec (*218)	180	39	-	-	½	-	-
	200	19	-	-	1½	-	-
Option		**May**	**Aug**	**Nov**	**May**	**Aug**	**Nov**
Brit Aero (*603)	600	12	43	55	8	25	36
	650	½	19	31	50	53	62
BAA (*433)	420	14	31	43	3	19	22
	460	1	14	24	30	41	45
BAT Inds (*697)	650	50	65	73	1	13	22
	700	7	36	47	11	32	45
BTR (*388)	360	25	41	46	1	7	11
	390	3	20½	28	9	18	24
Brit. Telecom (*384)	360	24	34	42	1	8	11½
	390	2½	15	23½	9	22	25
Cadbury Sch (*365)	360	9	27	35	4	13	18
	390	1	12	21	27	29	33
Eastern Elec (*197)	180	18	21	23	1	6½	9½
	200	3	10	14	5½	16	18
Guinness (*936)	900	38	75	94	1½	19	26
	950	5	45	62	21	40	47
GEC (*199)	180	19	22	24	½	4	5½
	200	2	7½	13	3½	13	16
Hanson (*219)	200	13	19	25½	1	4¼	7
	220	¼	8½	14	8	15	16
LASMO (*331)	330	7	24	33	7	17	22
	360	2½	13	23	32	35	40
Lucas Inds (*158)	140	20	26	29	1	4	6½
	160	3	11	17	4½	11	15
P. & O. (*592)	550	44	65	72	2	9	18
	600	4½	32	42	14	30	41
Pilkington (*176)	160	18	23	28	1	7	12
	180	2	11½	18	5½	19	22
Prudential (*222)	220	5½	17	21	2½	9½	13
	240	1¼	8	13	19	21	25
Racal (*224)	220	7	18	24	3	13	17
	240	1	10½	17	18	26	28
R.T.Z. (*523)	500	27	48	57	1	11	19
	550	1½	21	32	30	37	44
Scot. & New (*392)	390	7	22	31	3½	19	24
	420	1½	9	17	30	40	43
Tesco (*283)	280	5	20	25	2½	9	11
	300	1	9	14	20	21	23
Thames Water (*309)	300	12	20	23	2½	15	19
	330	1	6	11	24	37	40
Option		**Jul**			**Jul**		
STC (*320)	280	-	-	-	¼	-	-
	300	-	-	-	¼	-	-
Option		**Jun**	**Sep**	**Dec**	**Jun**	**Sep**	**Dec**
Abbey Nat. (*277)	260	21	29	36	2½	8	9
	280	8	16	24	10	16	19
Amstrad (*65)	60	7	11	13½	2	4½	5½
	70	2¼	6	8	7	9	10½
Barclays (*433)	420	26	37	47	7	19	25
	460	6	17	27	34	42	46
Blue Circle (*248)	240	16	25	32	6	12	16
	260	6	15	22	17	22	25

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
British Gas (*245)	240	11½	15	21	4½	11	13½
	260	2½	6½	12½	16	25	26
Dixons (*200)	200	8½	16	20	8½	16	18
	220	2	6	-	24	30	-
Eurotunnel (*465)	460	32	55	75	18	35	42
	500	13	38	50	45	57	62
Glaxo (*1138)	1100	61	102	122	14	35	45
	1150	31	70	93	34	56	67
Hawker Sidd. (*562)	550	31	60	72	13	28	36
	600	10	34	47	45	55	62
Hillsdown (*226)	220	13	23	28	5	9	12
	240	4	13	19	17	21	23
Lonrho (*254)	240	20	24	31	3½	9	11
	260	7½	13	20	11	19	21
Midland Bk (*211)	200	17	24	32	4	9	14
	220	7	15	22	16	20	25
National Power (*141)	140	7½	10	15	5	11½	12
	160	1½	4	7½	20½	26	27
Reuters (*849)	800	65	100	127	10	27	37
	850	34	69	95	27	47	57
R. Royce (*155)	140	16	21	25	1½	4	6
	160	4	10	14	9½	13	15
Sears (*82)	80	6	9	11	2½	4	5
	90	2	4¼	6½	9½	10	11
THF (*270)	260	16	26	31	4½	8	12
	280	5½	15	20	15	18	22
Thorn EMI (*713)	700	32	40	50	12	36	41
	750	10	19	33	40	68	70
TSB (*153)	140	14½	18	22	1½	3½	5
	160	2½	7	10	10	14	15
Vaal Reefs (*$60)	60	5	8	11	4½	8½	10
	70	2	5	-	11	15	-
Wellcome (*610)	550	69	92	105	4	12	18
	600	31	57	72	16	27	33

EURO FT-SE INDEX (*2483)

	2325	2375	2425	2475	2525	2575	2625	2675
CALLS								
May	162	114	65	26	9	1	1	19
Jun	176	132	90	57	32	17	9	4
Jul	195	-	115	-	57	-	22	-
Sep	238	-	165	-	102	-	60	-
Dec	288	-	220	-	156	-	110	-
Mar	330	-	265	-	207	-	155	-
PUTS								
May	2	3	5	17	47	93	142	162
Jun	11	15	25	38	62	95	137	182
Jul	17	-	35	-	73	-	137	-
Sep	37	-	60	-	93	-	145	-
Dec	54	-	77	-	110	-	155	-
Mar	60	-	85	-	115	-	160	-

FT-SE INDEX (*2483)

	2350	2400	2450	2500	2550	2600	2650	2700
CALLS								
May	138	88	43	12	2½	1	½	½
Jun	158	113	74	43	23	11	5½	2
Jul	176	136	101	70	46	27	17	11
Aug	193	155	121	91	65	46	33	22
Dec †	-	235	-	170	-	118	-	75
PUTS								
May	2	3	9	28	72	122	171	221
Jun	11	17	30	51	83	125	173	223
Jul	21	30	46	66	93	133	176	224
Aug	29	40	55	75	105	138	180	223
Dec †	-	75	-	110	-	165	-	235

May 23 Total Contracts 26,250
Calls 16,367 Puts 9,883
FT-SE Index Calls 4,121 Puts 760
Euro FT-SE Calls 1,019 Puts 2,480
*Underlying security price. † Long dated expiry months
Premiums shown are based on offer prices.

UK COMPANY NEWS

Storehouse halved to £6m and no relief in sight

By John Thornhill

STOREHOUSE, the retailing conglomerate which owns BhS and Habitat, reported a severe drop in annual profits as the effects of its restructuring programme and the recession took their toll.

Moreover, Mr Michael Julien, chief executive, warned that the retailing climate showed little sign of improvement in the first half of the current year.

"It is very rough out there. We are swapping blow for blow with our competitors," he said.

Taxable profits halved from £12.8m to £6.2m in the year to March 30. However, these figures were depressed by an exceptional item of £14.8m (£19.8m) relating to the extensive store rationalisation programme and associated redundancy costs.

Turnover dropped from £1.31bn to £1.21bn as sales weakened markedly in the second half.

After extraordinary writedowns of £11.2m (£7.4m) resulting from the disposal of several businesses, Storehouse incurred a net deficit of £7.1m (£1.1m profit) for the year.

BhS saw a higher rents bill reduce its profits contribution from £27.4m to £21.6m, although sales edged ahead marginally to £617.7m.

Habitat was substantially shaken up and its head office was reduced from 350 people to 120. Even so, the chain lost £11.2m (£6.9m) although most of the losses occurred in the first half.

The speciality retailing division recorded a mixed performance but operating profits fell from £18.7m to £9.5m.

Earnings per share, excluding exceptional items, fell to 3.7p (5.1p). The total dividend was maintained at 5p - after a final of 2.5p - reflecting the strong balance sheet.

● **COMMENT**

The Storehouse story sounds simple. After some fairly brutal – but badly needed – restructuring of its operations, the company is now clearly focused on five businesses in which it fully prepared to invest. The accountants have seemingly done their stuff; it is now up to the retailers to sell themselves back into prosperity. But Storehouse's troubled legacy and the current terrible trading conditions suggest the company still has a very long way to run. The end of the recession is nowhere to be seen, the cost pressures in the business are about to escalate and the competition from the likes of Marks and Spencer will only intensify. Storehouse's merits as a recovery play are wearing rather thin considering there is no recovery in sight. This year pre-tax profits may amount to £15m putting the company on a largely irrelevant prospective multiple of 33. The shares are to some extent underpinned by the dividend yield and asset backing but nevertheless look set to disappoint in the short-run.

Gerrard & National rises 42%

By David Lascelles, Banking Editor

GERRARD & National Holdings, the City of London financial services and discount house group, lifted profits by 42 per cent in the year to April 5, but the increase came mainly from non-traditional businesses.

Net profit was £12.13m, up from £8.52m. The final dividend is 14.5p, lifting the total from 19p to 20.5p.

Mr Brian Williamson, chairman, said the discount house business, which trades bills, had not made money despite the fall in base rates from 15 per cent to 12.5 per cent over the period. This was because the price gains from rate reductions were discounted well in advance by the market.

Suggestions that Gerrard had made large profits out of last October's entry into the ERM by the UK were also wrong, he said.

Profits had come from diversified activities in the derivative markets, gilt-edged market making, and GNI, the 70 per cent-owned futures and options broker where taxed profits rose by nearly 30 per cent to £3.97m.

Gerrard Vivian Gray, the stockbroking subsidiary, made an overall loss in the year to January 25, though it had since returned to profitability.

Gerrard also announced the acquisition yesterday of LM (Moneybrokers) from Exco International. LM specialises in stock lending and has a net asset value of £15m. In its latest financial year it earned £4m before tax. The consideration is £12.5m cash plus £1m a year for the next three years.

Mr Williamson said the acquisition formed part of the group's strategy of investing its capital in promising markets. He stressed that Gerrard was steadily diversifying away from its discount house origins.

Receivers go in at Westerly

Westerly, the yacht building and shoe manufacturing group, was yesterday put in administrative receivership, writes David Churchill.

This follows the decision earlier in the week to appoint administrative receivers at Westerly Yachts, its boat building subsidiary. Last week it stopped production of its luxury yachts following a slump in demand as a result of the recession and the increase in VAT to 17.5 per cent.

The decision to appoint administrators, from Price Waterhouse, followed the failure of last minute talks between Westerly and its bankers, including Barclays which was seeking repayment of a £2.3m overdraft.

Depressed demand cuts Acatos to £2.8m

By Michiyo Nakamoto

TAXABLE profits at Acatos & Hutcheson, the edible oils and fats group, fell to £2.8m in the six months to March 31, against £3m in the comparable period.

The result was struck on lower turnover of £115.74m (£140.89m) and compares favourably with the company's performance in the second half of 1990, when pre-tax profit slumped to £1.2m.

There was an extraordinary item of £300,000 resulting from its decision to terminate its involvement in Macisa, a joint venture in Spain.

After conclusion of the joint venture, the group saw a £2.2m surplus arising against a £6.9m provision made in September 1990. Of that sum, £1.9m is being used to repay a loan.

Acatos had to abandon plans to go private last year after agreement with a potential equity investor fell through in November. The shares yesterday closed up 2p at 93p.

The group warned that trading conditions remained difficult as high UK interest rates depressed demand and the strength of sterling hampered the group's price competitiveness in the face of imports.

Earnings per share rose to 5.1p (5p) and the interim dividend is unchanged at 1.75p.

Brent Walker aims for June target

By Maggie Urry

BRENT WALKER, the leisure group negotiating a refinancing with its banks, has effectively set itself a deadline of June 6 to agree proposals for a restructuring of its balance sheet.

It announced that holders of 93 per cent by value of its £101.9m convertible bond had agreed to the postponement of the interest payment due yesterday until June 6 "to provide the company with an opportunity to determine the precise terms of the restructuring to be put to bondholders."

In order to put terms to the bondholders the group will have had to finalise the restructuring. This is intended to match the its finances to its longer term trading position, and is expected to involve asset disposals. Currently the company's operating profits do not cover the interest payable on its £1.5bn of debt.

Bankers involved in the talks said it was possible that the restructuring could be tied up by the deadline. However, they noted that the group had missed other deadlines, notably when the convertible bond was issued last November, at the time a temporary refinancing was agreed with the group's 60 or so banks.

Bankers said talks so far had gone well, although there was still a wide gap between the business plan Brent Walker had submitted on Tuesday and that of the bankers. Leading lenders remained optimistic that the group's survival could be ensured.

Holders of £94.8m worth of the bonds agreed to wait for their interest, while investors in the remaining bonds were paid their interest yesterday, costing about £450,000.

The statement was issued after the stock market closed with Brent Walker shares unchanged at 28p and the bonds quoted at 53 per cent of their par issue price. Yesterday's interest payment on the bonds, which should pay 13 per cent each year, was the first due since their issue.

Although the bonds were offered to all Brent Walker shareholders, only 254 took them up – investing £510,000.

Mr George Walker, chief executive of the pubs, betting, leisure development and property group, and his family bought £39.5m worth of the issue. He also helped to line up other buyers.

These included Jefferson Smurfit, the Irish-based paper and packaging group, and its chairman Mr Michael Smurfit who together took £25m.

Svenska International, one of the leading lenders to Brent Walker and a member of the steering committee of Brent Walker's banks, took £16m.

Creditors hope to sight a phoenix

Richard Waters on criticisms facing Polly Peck's administrators

ALEXANDRA PALACE, the late Victorian pleasuredome that dominates much of the north London skyline, is no stranger to financial disaster. A commercial white elephant since the day it was built, its fire-damaged bulk has just cost £61m to reconstruct – much of it financed by debt. What better meeting-place for creditors of Polly Peck International, who will gather today to hear if (and when) they can hope to recover the more than £1bn owed by the group?

Ally Pally is likely to witness some fierce debate. Many creditors and shareholders of Polly Peck, the fresh fruit and electronics group that went into administration last autumn, are unhappy with the way the insolvency has been handled so far, and are likely to make their views felt at what is the first full-scale meeting to have been called.

The complaints fall into two camps. First, some creditors are impatient at the thought of waiting years to get any money back, and question why Polly Peck's assets cannot be realised sooner. Second, many feel that the administrators have failed to keep sufficiently informed of what has been going on, and that their report to creditors two weeks ago contained little new information about the group.

Mr Michael Jordan, the Cork Gully senior partner who has led the administration, is forthright about the first complaint. "The business community doesn't appreciate what rehabilitation is all about," he said. "They all think administration is just another form of liquidation, but it isn't."

The administrators' job is to keep the business afloat and develop its various businesses, rather than liquidate it as soon as possible, he said. Their report has already spelt out the possible disastrous consequences of an immediate liquidation: a recovery of only 20p in the pound, compared with more than 50p in the longer term if the group is kept afloat.

Some creditors have suggested that the figure of 20p is unduly pessimistic and has been advanced to browbeat the creditors into backing the administrators. One large creditor, who declined to be named, said yesterday: "The administration is consuming a lot of cash. They keep saying, give us time. Maybe I accept what they are saying at this stage, but we can't wait another six months without them achieving anything apart from the sale of a few antiques."

Despite the anxiety in some quarters, though, there was general agreement yesterday that the administrators would get sufficient support to keep the group afloat, at least for the time being.

Warburg Soditic, the Swiss arm of SG Warburg, which organised SFr600m (£240m) of bond issues for Polly Peck and so speaks for a large number of creditors, said yesterday: "There's always frustration when people lose money. But these things take time – it's nothing compared to the time a chapter 11 can take in the US."

There will be little today to assuage creditors' second complaint – that too little information has been released by the administrators. Creditors have been told that £959m of Polly Peck group money has been lent to its Turkish and northern Cypriot operations. But they have been given no information at all about how much of it may be recovered, or even what assets there are in the eastern Mediterranean.

Since early this year, an injunction obtained by directors of Unipac and Sunzest Trading, two Polly Peck subsidiaries on the island, has effectively barred the administrators from gaining access to the Cypriot operations. Negotiation with the directors' lawyer, Mr Mentes Aziz, and the apparent support of the northern Cypriot and Turkish authorities, may now have eased the problem.

From what is already known of Polly Peck's assets on the island, it owns one completed hotel and several under construction.

Polly Peck's other Cypriot operations consist of a fruit export company (Sunzest) and a cardboard box manufacturer (Unipac).

It is expected that some new information about assets in Cyprus will be revealed today, although not enough to explain the huge cash outflows to the area in recent years.

The administrators' hands are tied in large part by a legal agreement with Mr Mentes Aziz under which they have agreed not to make any information about the Cypriot situation public without prior agreement.

Creditors will also be asked today to decide a tussle between institutions which have been struggling for a place on the five-person creditor committee, which will oversee the future progress of the administration. The seats are likely to go to the leaders of bank syndicates, or others who can count on substantial creditor support – Warburg Soditic, for instance, said it already had proxy votes from holders of SFr250m of Polly Peck's bonds.

Mr Jordan says he would like to see at least one institutional shareholder on a ten-member advisory committee to be appointed today. That way, shareholders who have seen their £2bn company reduced to rubble will at least be able to walk away from Alexandra Palace feeling it hasn't all been in vain.

Alan Harper

Michael Jordan, left, and Richard Stone, administrators likely to face a stormy meeting

Tace showdown with institutions set for June 19

By Andrew Bolger

TACE, the environmental control equipment group, yesterday set June 19 for its showdown with two institutional shareholders – Norwich Union and Framlington – which wish to install a new board.

Sir David Nicholson, Tace chairman, regretted that attempts to reach a compromise had been rejected.

However, Tace further polarised the situation by announcing the appointment as a non-executive director of Mr Bob Morton, who holds a 5 per cent stake through his company Southwind.

Mr Morton's appointment will be unwelcome to the two institutions and if shareholders support the resolutions they have tabled Mr Morton would be turned out with the rest of the board, including Sir David.

The institutions, which last year ousted Mr Jock Mackenzie, the group's founder, want a board led by Mr Michael Beckett, who quit in April after clashing with Sir David.

Mr Dick Richardson, Tace's managing director, said plans for a capital reconstruction and rights issue had been "put on the back burner" until the board's future was resolved.

He said Mr Morton had been one of several people willing to underwrite the proposed rights issue, but would not now be able to do so as a director.

In a letter to shareholders, Sir David said: "Norwich Union appears to see this as a test case for investor protection and corporate governance. It is nothing of the kind. It is the attempt of one very powerful institution holding only 5 per cent of your company to impose on this board its own nominee, Mr Beckett, as chairman, when in the circumstances the board does not regard Mr Beckett as suitable."

Takare plans debenture placing to raise £15.75m

By Jane Fuller

TAKARE, the nursing home group, is raising £15.75m to fund its rapid expansion by placing debenture stock.

Mr Keith Bradshaw, chairman, said the group had more than 3,000 beds in use or in units being built, and by the end of this year the figure would pass 4,000. Its plan is to keep growing at a rate of 1,000 to 1,200 beds annually.

Takare has expanded from about 800 beds at the end of 1988, the year it joined the Third Market. In 1989, when it moved up to the main market, it raised £21m via a rights issue and debenture stock placing. Last summer, a share placing pulled in £18.8m.

Mr Hamilton Anstead, finance director, said that before the latest money-raising move, net debt stood at about £20m, giving gearing of 40 per cent. The debenture stock, yielding 12.5 per cent, would be used to replace short-term borrowings.

After spending £32m on building last year, a further £30m-£38m would be absorbed this year and borrowings would rise to £40m.

Takare made a pre-tax profit of £4.4m (£2.15m) on turnover of £14.9m (£8.5m) in 1990.

The share price rose 3p to 137p yesterday.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Acatos/Hutcheson ......int	1.75	July 22	1.75	-	3.5
Airflow Stream ......fin	2	July 22	4	4	6
Archer (AJ) ......int	3.15	Aug 15	3.15	-	8.4
Berry Birch ......fin	1.5	July 11	nil	1.5	nil
British Telecom ......fin	8.05	Sept 11	7.15	13.3	11.8
Dobson Park ......int	1.9	Aug 12	1.9	-	5.75
Fleming High Inc......fin	1.45	July 1	1.35	5.75	5.25
Gerrard & Natl ......fin	14.5	July 1	16	20.5	19
Morland ......int	2.17	July 12	1.97	-	6.45
Plysu ......fin	3.15	July 18	2.5	4.5	3.5
Storehouse ......fin	2.5	Aug 15	2.5	5	5
Thames TV ......fin	10.65	July 31	6.65	16	12‡
Trimoco ......fin	0.8	July 31	0.8	1.4	1.4
Warner Estate ......int	3.25	July 12	3	-	9
Westbury ......fin	5.75	July 19	5.75	9	9
Whitbread ......fin	12	July 26	11	16.3	14.8
Yorkshire Water ......fin	11.8	Oct 1	10.28	17.7	10.28
Young Brewery ......fin	7	July 9	6	13	11.5

Dividends shown pence per share net except where otherwise stated. ‡For nine months.

UK COMPANY NEWS

Yorkshire Water ahead of expectations with £114m

By Clare Pearson

YORKSHIRE Water yesterday underlined its determination not to encourage a dividend race as it kicked off the reporting season for the sector.

Sir Gordon Jones, chairman, announced a final payment of 11.8p, holding the annual increase at 14.8 per cent to 17.7p for the year. He stressed the company's commitment to a "progressive medium term" dividend policy.

Pre-tax profits for the year to March 31 came out at the higher end of market expectations at £114.1m (£101.3m).

Turnover was £388.9m (£354.7m) and earnings per share 52.2p (46.5p).

Sir Gordon said overall increases in charges for 1991-92 were about 13 per cent, just below the permitted maximum for Yorkshire and the lowest for the 10 companies.

The company was slightly ahead of schedule on its £2.5bn 10-year capital expenditure programme, having sharply increased spending from £189m to £255m. The profile of the programme meant that spending would now remain at current levels.

Yorkshire continued to put a high emphasis on raising efficiency. Efforts last year included a reorganisation which would eliminate 170 jobs. Operating costs rose by 8 per cent to £282.9m (£262.1m).

The company said the adverse impact of the recession on revenues was no more than £3m. But it had increased bad debt provisions in real terms for the first time in six years.

The drought had also created cost pressures.

Factors beneficial to costs included negotiation of new electricity tariffs, the switch to the uniform business rate and lower-than-expected charges for civil engineering and tunnelling. High interest rates benefited net interest receivable of £8.1m (£8.7m).

The enterprise division, which comprises Yorkshire's non-core activities such as laboratories and engineering, contributed £7.1m to turnover.

The comparisons are with pro forma figures for 1989-90, during which period the water companies were privatised. The actual reported figures for that year were: pre-tax profits £57.7m, operating profits £94.4m, and the dividend payment 10.28p.

36% setback for Dobson Park

By Andrew Bolger

DOBSON PARK Industries, the mining equipment, industrial electronics and toys group, blamed difficult trading conditions for a 36 per decline in pre-tax profits, from £10.16m to £6.53m, for the six months to March 30.

Turnover dropped by 12 per cent to £114.17m. Earnings per share fell 40 per cent to 3.52p (5.87p) but the interim dividend is maintained at 1.9p.

Mr Gordon Marshall, chairman, said the lower sales levels, particularly in the industrial electronics, power tools and toys divisions, illustrated recessionary conditions in both the UK and US, although European markets were still buoyant.

The deterioration in mining equipment operating profits to £2.07m, compared with £4.16m, resulted from lower level of UK demand, partly offset by an increase in overseas business, and rationalisation costs of about £1m.

Overall restructuring costs rose from £100,000 to £1.3m. In the past six months, the group has shed about 580 jobs.

Property and investment management profits of £456,000 were down from last year's exceptional £1.4m which followed the sale of a factory in Ealing. Interest payable fell from £1.21m to £378,000.

Further measures were being taken to cut manufacturing activities to match current volume expectations. In particular, the Britains toy site in Walthamstow, north London, would be closed before the end of the calendar year, with the loss of a further 200 jobs, and its manufacturing activities transferred to the Petite factory in Nottingham.

Mr Marshall said there had been few detectable signs yet of any recovery in general business levels. However, because of more mining equipment contracts and the seasonal nature of the toys business, he was looking forward to an improvement in the second half.

Airflow Streamlines declines by 62%

TAXABLE PROFITS at Airflow Streamlines, the Northampton-based vehicle cab manufacturer and Ford main dealer, dived by 62 per cent over the 12 months to February 28. The final distribution is halved.

The fall in profits – from £3.2m to £1.22m – came on turnover virtually static at £65.18m (£66.14m).

Directors said that already reduced demand for cab assemblies worsened during the second half and substantial redundancy costs were incurred. The situation was "severely compounded" by the deferred introduction of a new product line. Overall, the manufacturing division saw profits fall from £1.87m to £726,000.

Declining demand also affected the Ford and Iveco dealerships with profits in the motor division down to £490,000 against £1.33m.

On prospects the company said that demand for cab assemblies remained at a low level and the sale of new cars and trucks was affected by the recession, however other activities of the motor division continued to be satisfactory.

Earnings per share were 8.97p, down from 23.32p, and the final dividend is halved to 2p for a total of 4p (6p).

Regulator's shadow over season of results

Clare Pearson reports on a warning to bear in mind the duty to customers

MR IAN Byatt, director general of the Office of Water Services, cast a shadow over the sector yesterday as what is expected to be a bumper results season for the 10 companies began.

While Yorkshire Water was announcing a 13 per cent increase in annual pre-tax profits, Mr Byatt was dispatching a letter to the companies pointing out the risks of unexpectedly high increases in dividends and profits.

The letter warned that: "If companies were to ... pay out dividends above those anticipated when the K factors were set they would need to be ready to answer pointed questions from customers and from the regulator."

He noted that the rise in inflation since the regulatory regime was created in 1989 had presented "problems for customers." He said that when bills were rising rapidly, "customers will not expect companies to make unnecessarily high profits ... and pay out excessive dividends."

The letter was the clearest indication yet of Mr Byatt's stance, although it followed some heavy hints of his growing concern about the implications for customers of the companies' buoyant profitability.

It comes as the companies find themselves in the potentially embarrassing situation of having introduced charge increases averaging about 15 per cent this year, while plummetting inflation is pushing down costs.

Yorkshire Water, the first company to report, has adopted a circumspect approach to what looked, at the interim stage, like a dividend race. But much bigger rises than Yorkshire's 14.8 per cent are expected from other companies over the next few weeks.

Behind their apparent generosity is a sharp improvement in profitability over that expected in 1989 when the regulatory system was created.

The key tool in this regime is the so-called K factor, part of a formula by which each company is allowed to raise charges above the rate of inflation annually over the next 10 years, so that they can handle their massive capital expenditure programmes to meet improved standards.

Mr Lakis Athanasiou, water analyst at UBS Phillips & Drew, believes that the pre-tax profits the companies announce for the year to end-March are likely to be on average 20 per cent higher than envisaged in the K negotiations.

Part of that out-performance can be attributed to changed economic conditions: the benefit of higher interest rates on cash balances and the recession in the building industry, which has contained construction costs.

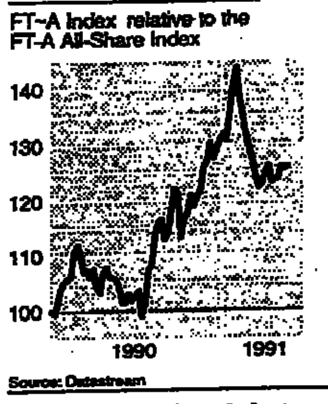
Meanwhile, higher than expected inflation has meant that the companies have been delivering dividend increases which look extremely good compared with the stock market over all.

But then, back in the pre-recessionary days of 1989, it was thought necessary to factor into their structure the ability to increase annual dividends by about 4 per cent in real terms.

However, the companies will argue that it is not just favourable changes in economic conditions that have fuelled progress. They say it also reflects efficiencies which are genuine results of management action.

Water

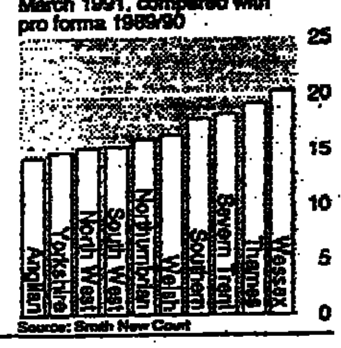
FT-A Index relative to the FT-A All-Share Index



Source: Datastream

Dividend growth in the water sector

Forecast annual increases to end March 1991, compared with pro forma 1989/90



Source: Smith New Court

How to define such efficiencies is likely to be at the heart of their dealings with the regulator.

Mr Byatt has a number of tools at his disposal to control the companies. All the K factors come up for review in 1994 and Mr Byatt is bound to change them in the light of economic conditions.

He is also free to make adjustments earlier. For one thing, he can reject applications from companies for so-called cost pass-through items: expenditure that could not have been anticipated at privatisation that can be made up for by the customer.

Additionally, he can put pressure on companies to keep annual charge increases well within the K factors – something which they did not do this year.

Yesterday's letter hinted that he might do just that. He noted: "If companies do not need to plough back unexpectedly high profits, they may wish to consider not taking up the whole of their K factor when raising prices in April 1992."

The threat to the companies should not be exaggerated.

Whatever he did, Mr Byatt would hardly go so far as to ruin their financial health. And his letter states that he has no wish to "deny the importance of incentives in a price-cap regulatory system."

Indeed, news of his letter had no effect on prices of water shares yesterday. They are being driven by a broader consideration about the utilities sector. That is the expectation that the offer price, to be announced next week, for the privatisation of the Scottish electricity companies will leave water companies looking cheap.

Nevertheless, it looks as if the companies themselves would be well-advised to apply some hard thinking to how they might justify where their profits are coming from. It is only a month before their reports on capital expenditure and services, which they are required to submit annually, are due on Mr Byatt's desk.

Miller halved to £10.75m after land write-downs

By James Buxton, Scottish Correspondent

MILLER GROUP, the Edinburgh-based concern which is one of the UK's largest privately-owned construction and development companies, saw its pre-tax profits halved from £21.54m to £10.75m last year.

In results which Mr James Miller, chairman, described as "a little bit disappointing," turnover fell 8 per cent to £235m (£256m).

Write-downs on land and property totalled £5.5m this time, whereas in 1989 Miller had benefited from the sale of properties at favourable prices,

The company said that construction, its largest subsidiary, had suffered from the general downturn in orders and squeezed contract margins within the industry, especially in the south of England. It was responding in part by developing joint ventures with companies offering specialist construction skills.

Miller Construction was chosen recently to build the £23m privately-funded bridge between the Scottish mainland and the Isle of Skye.

Mr Miller, the largest shareholder in the family controlled company, said he thought it would be 1992-93 before the effect on the construction industry of very keen contract prices had worked its way through.

Agreement on BCMB sale

By David Lascelles, Banking Editor

Administrators of British & Commonwealth Merchant Bank confirmed yesterday that they have reached agreement in principle to sell the bank to Charterhouse, the merchant banking arm of the Royal Bank of Scotland.

They said they hoped to exchange contracts by the end of June with completion soon afterwards.

If the deal goes through, it is expected that BCMB's depositors and other creditors will be repaid in full.

BCMB has £100m of stockbroker client money which has been frozen. It has been in administration since last summer's collapse of its parent.

Dutch activities behind Plysu's advance to £7.5m

By David Owen

PLYSU, the plastic packaging and housewares manufacturer, reported record pre-tax profits of £7.52m as its Dutch operations combined with lower interest costs to offset the impact of the UK recession.

This compared with £5.51m in the year to March 31 1990 and with £6.82m the year before. Turnover climbed 11 per cent to £65.27m (£58.58m).

Plastic bottle activities had a more difficult second half than anticipated, partly because of higher polyethylene prices as a result of the Gulf war.

There was also a period of shortage when the company "could not always be sure of obtaining the optimum grades of material." The situation is now "much improved".

Houseware business was hit by lower consumer demand, but this was more than offset by improved efficiency. Dutch sales and profits were both "well ahead" of last year, with turnover of £8.82m.

Capital expenditure amounted to £5.6m, mainly on further lifting the milk bottle capacity. Interest costs were £1.04m (£1.5m), while year-end gearing stood at 22 per cent.

Earnings per share were 11.4p (8.6p). A final dividend of 3.15p makes a total of 4.5p (3.5p).

The shares climbed 9p to 152p.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 24.05.91: Pool purchase price £/MWh	Final Prices for Trading on 23.05.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.47	16.18	16.18
0100	16.47	16.10	16.10
0130	16.47	16.28	16.28
0200	16.47	19.00	20.89
0230	16.47	23.38	25.37
0300	16.47	23.38	25.37
0330	16.47	18.24	18.24
0400	16.47	18.32	18.32
0430	16.47	18.28	18.28
0500	16.47	16.18	16.18
0530	16.40	16.10	16.10
0600	16.40	16.10	16.10
0630	16.41	16.18	16.18
0700	16.47	16.28	16.28
0730	18.82	17.13	17.13
0800	21.53	20.71	22.66
0830	21.68	23.65	24.68
0900	21.88	23.72	25.76
0930	28.92	23.62	25.64
1000	28.92	23.57	25.57
1030	21.86	21.41	23.35
1100	21.86	21.37	23.31
1130	21.89	21.39	23.33
1200	21.69	21.39	23.34
1230	21.65	21.37	23.30
1300	21.58	21.33	23.26
1330	21.58	20.98	22.92
1400	21.52	20.99	22.91
1430	20.28	20.66	22.68
1500	20.98	20.66	22.58
1530	20.98	20.66	22.59
1600	20.98	20.06	21.96
1630	20.98	20.08	21.98
1700	20.98	20.06	21.97
1730	20.99	20.06	21.97
1800	20.98	20.06	21.98
1830	18.82	19.77	21.66
1900	18.64	19.53	21.44
1930	18.47	19.53	21.44
2000	18.42	16.36	16.36
2030	18.42	17.04	17.04
2100	18.31	19.53	21.44
2130	18.47	19.53	21.43
2200	20.98	19.53	21.43
2230	20.98	18.34	20.21
2300	20.98	18.02	18.88
2330	16.47	16.28	16.28
2400	16.19	16.10	16.10

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

UK COMPANY NEWS

Thames TV plunges as Exchequer levy soars

By Jane Fuller

THAMES Television, the largest of the ITV franchises, saw pre-tax profit drop to £10.07m in 1990 after sharp rises in the Exchequer levy and redundancy costs.

No comparative figures were available because Thames previously reported for the nine months to December 1989. But in that period pre-tax profit was 2.6 times greater at £26.35m.

Thames, which is 56 per cent owned by Thorn EMI, is facing competition for the London weekday franchise, serving 4.8m homes, from Carlton Television and CPV-TV.

Mr Richard Dunn, chief executive, said the "dreadful" £21m Exchequer levy (£12m for nine months) was £11m higher than it would have been under the previous method of calculation.

The switch of emphasis to revenue, rather than profit, and the use of the more buoyant 1989 as a base year had led to the big increase.

About 300 redundancies had cost £7.5m (£2m), bringing the workforce down to 1,450, compared with a peak of 2,244 in 1986. A further 200-plus reduction was planned.

Taken with a £1.6m increase in the bill for the ITN news service, after accounting errors at ITN, these three charges knocked about £18m off profit, Mr Dunn said.

Advertising revenue had declined since August and Thames' share of network revenue fell to 15.2 per cent (15.7 per cent). In the first quarter the network total was down 6.8 per cent, while Thames' share improved to 15.5 per cent.

Operating profit before the levy was £41.29m (£35.42m) on turnover of £378.09m (£270.64m). A loss of nearly £2m was incurred by Reeves, the US production subsidiary bought for £59.6m in January last year and resulting in a total cash outflow of £72.3m. It contributed programme sales of £28.2m.

Mr Dunn said performance this year depended partly on the syndication or sale of two big series. The acquisition's costs were to some extent offset by a £4.6m exchange gain.

Net borrowings in December were £40.3m and interest costs for the year were £2.1m (£2.9m received).

Debt was set to come down substantially over the next 18 months, said Mr Dunn. Net assets fell to £44.5m (£101.5m), reflecting a £51.5m goodwill write-off on Reeves. The extensive programme library was not on the balance sheet.

There was a £6.6m extraordinary provision against an investment in an Australian television company that had gone into receivership.

Earnings per share fell to 13.3p (34.4p) or 23.2p (37p) before exceptional items. The dividend was effectively maintained at 16p (12p) after a proposed final of 10.85p.

Lydia van der Meer

John Young: "seeing a swing back to traditional ales after years of lager supremacy"

Young tops £5m as beer sales rise

By Philip Rawstorne

INCREASED BEER sales helped lift annual pre-tax profits of Young & Co, the south London-based brewer, by 9 per cent from £4.62m to £5.03m.

Beer volumes were 5 per cent higher and margins improved in a generally depressed market. Gains were made both in the brewer's 155 pubs and in the free trade. "We are seeing a swing back to traditional ales after years of lager supremacy," said Mr John Young, chairman.

After a slow start, demand for Young's ale brands was now rising strongly in the "guest beer" market among pubs in other brewers' estates.

Trading profit during the year ended March 30 rose 27 per cent to £6.86m (£5.39m) on turnover ahead 13 per cent at £58.52m (£51.98m).

Earnings per share expanded 18 per cent to 28.38p (24.11p) and a proposed final dividend of 7p raises the total payout by 13 per cent to 13p (11.5p).

"Although the outlook is somewhat unsettled, we are cautiously optimistic for the coming year and will take full advantage of the further opportunities that may arise as a result of the Monopolies and Mergers Commission report," Mr Young said.

Westbury slides into red and calls for £21m

By Andrew Taylor, Construction Correspondent

WESTBURY, the Cheltenham-based housebuilder, yesterday became the latest construction group to make a cash call on its shareholders.

It is seeking to raise £20.7m via a 1-for-3 rights issue of 16.61m shares at 130p apiece. The money is to be used to reduce bank borrowings which at the end of February stood at £55.8m, equivalent to 59 per cent of shareholders' funds.

Construction and building materials companies have sought to raise more than £1bn of the £4.3bn which UK companies have attempted to raise from rights issues in the first five months of this year.

The issue accompanied news of a pre-tax loss of £8.12m for the 12 months to end-February. That compared with pre-tax profits of £28.12m in the previous year. Turnover amounted to £171.1m (£174.36m).

Westbury sold 2,576 homes – 13.7 per cent more than in the previous year. Average prices, however, fell from £72,700 to £61,900 as the group sold more houses to first time buyers.

Losses per share emerged at 14.6p, against earnings last time of 36.6p. However, the final dividend is again 5.75p for a maintained total of 9p.

The rights issue has been fully underwritten by Kleinwort Benson. Mr Fraser said the cash would be used "to reduce debt and strengthen the balance sheet by improving interest rate cover."

It would also allow the group to strengthen its landbank by selective purchases of land "at prices which are more realistic than they have been for several years".

Losses last year included an exceptional provision of £12.75m attributable to a write-down against the landbank and £779,000 to cover reorganisation costs.

● COMMENT

Companies in a far worse state than Westbury have announced rights issues since January 1. The market, despite the large amounts of construction paper on offer at the moment, chose to look kindly on its announcement and the shares yesterday fell just 4p to close 10p above a theoretical ex-rights price of 152p. Gearing after the issue should fall to about 30 per cent underlining the sound state of the balance sheet by comparison with others. A fully-fledged housing recovery may be delayed until next year. Nonetheless the rights look reasonable value even on a prospective p/e of more than 20 on pre-tax profits of £6.5m this year.

Depressed motor sales trim Trimoco to £2.5m

By Jane Fuller

FORD'S falling share of the UK car market and depressed margins in the motor trade saw pre-tax profits at Trimoco fall by 34 per cent, from £3.8m to £2.5m.

The Saudi Arabian Jameel organisation, which last year took over Hartwell, the Oxford-based motor distributor, has a 24.4 per cent stake in Trimoco and holds most of the outstanding convertible loan stock. Conversion would take it to 33.4 per cent.

Trimoco's turnover for the year to March 31 declined to £245.62m (£280.78m). Mr Keith Hill, finance director, said the main disappointment had been new car sales. Most of the company's franchises are Ford.

Motor dealership operating profit fell from £6.17m to £4.18m. The number of new cars sold dropped by nearly 19 per cent to 12,134, while used car profit fell 17 per cent.

Property profits rose to £2.38m (£1.79m), thanks to rent increases charged internally to motor dealerships.

Overall, operating profit fell 17.5 per cent to £6.56m (£7.96m). Interest payable was £4.06m (£4.16m).

Mr Hill said that conversion of loan stock to equity and reduced working capital had reduced net debt to £20.75m (£31.44m) and improved shareholders' funds, giving gearing of 66 per cent compared with 123 per cent.

Fully diluted earnings per share were 1.39p (2.34p). A final dividend of 0.8p makes an unchanged total of 1.4p.

NEWS DIGEST

Shaftesbury falls £5.86m into red

THE CONTINUED decline in the property market hit Shaftesbury in the half year ended March 31 1991, and it incurred a pre-tax loss of £5.86m, against a profit of £194,000.

Included were provisions of £3.88m, comprising £2.04m against the cost of certain development properties and £1.84m for the share of provisions against properties held as current assets by associates.

Rents receivable rose to £2.9m (£2.64m), but interest charges increased to £3.03m (£1.24m). No interest was capitalised. Losses per share were 23.9p (earnings 0.46p).

Financing details of Medeva's US buy

Medeva, the pharmaceutical group, has announced the financing details of its $74.4m (£43m) purchase of MD Pharmaceutical, its first US acquisition.

Consideration is $72.2m in cash, which Medeva has arranged to be satisfied by the allotment to the vendor of 33.1m new ordinary shares. In addition, the vendor will be granted an option to acquire up to 3m ordinary shares at a market-related formula price.

A further 11.92m new ordinary will be issued to provide $2.2m to fund incentive bonuses for senior managers and key employees of MD Pharmaceutical and about £10m for working capital and costs of the placing.

The shares have been conditionally placed with institutional and other investors at 126p per share, and under the open offer Medeva shareholders and warrant holders are being offered the 45.02m new ordinary on the basis of 1-for-3.

Citybond and Hays agree offer terms

Directors of Citybond Storage Services and Hays have agreed the terms of a recommended cash offer from Hays of 132p cash for each Citybond share.

A separate agreement, which depends on the offer becoming unconditional in all respects, has been reached with Citybond "A" shareholders in respect of their shares.

The total value placed on Citybond by the offer and the agreement is about £2.8m.

Archer cautious on dividend payment

Reflecting increased agent's fees, AJ Archer Holdings lifted pre-tax profits from £650,000 to £708,000 in the half year to March 31.

This Lloyd's underwriting agent is holding the interim dividend at 3.15p but could give no assurance that the 5.25p final would be maintained.

Mr Richard Maylam, chairman, warned that the underwriting conditions in 1988,1989 and 1990 would have an adverse impact on the results and the level of dividend for the financial years 1992 and 1993.

He said since March 31 the group had received profit commission for the 1988 account of £2.2m, only half of the 1987 figure.

Turnover in the half year came to £1.32m (£1.17m). Operating profit was £335,000 (£280,000) and interest receivable £373,000 (£370,000). Earnings per share worked through at 1.9p (1.7p).

Berry Birch moves ahead to £0.63m

After a year's absence Berry Birch & Noble is returning to the dividend list with a payment of 1.5p.

Turnover of this financial services and insurance broking group rose from £4.92m to £5.26m in the year ended January 31 1991, while pre-tax profit expanded from £400,000 to £628,000.

Net interest received came to £66,000, against £6,000 paid. There was an extraordinary charge of £106,000 (£86,000) representing costs related to the withdrawal from micro-electronics. Earnings per share were 6.2p (4.3p).

James Crean lower with I£19.6m

James Crean, the Dublin-based food, household goods and industrial equipment wholesaler, reported a 9 per cent fall in taxable profits from I£21.55m to I£19.6m (£17.7m) in 1990.

Turnover fell to I£179.72m (I£184m), income from related companies dropped to I£1.73m (I£4.66m) and interest charges rose from I£1.5m to I£2.74m.

Earnings per share were a lower 45.1p (58.3p) and there is no final dividend proposed (10.4765p). Instead, a first interim dividend of 10.4765p in respect of 1991 is declared.

Morland benefits from draught sales

Morland, the Thames Valley brewer, lifted turnover 18 per cent and pre-tax profit 12.5 per cent in the year to March 31 1991.

Mr Jasper Clutterbuck, chief executive, said the outlook for the rest of the year remained satisfactory. Negotiations with Courage to purchase 100 pubs were proceeding to plan.

Turnover amounted to £15.35m (£13m), operating profit to £2.29m (£1.88m), and the pre-tax balance to £2.67m (£2.38m) after surplus on property disposals of £325,000 (£279,000).

Mr Clutterbuck said sales of draught beer increased by 6 per cent. Additionally there had been a continuing swing from lager to ale with a consequential and beneficial impact on profit.

Earnings per share were 11.3p (10p) and the interim dividend is 2.17p (1.97p).

EC pushes farm spending plans to budgetary limit

By David Gardner in Brussels

THE European Commission last night pushed its proposed farm budget for this year up to the absolute ceiling allowed by the "guideline" governing agricultural spending.

At the same time Brussels threatened to take this year's price package to EC finance ministers if the agriculture ministers meeting here could not agree to its modified proposals.

Commission officials said spending would be raised marginally to accommodate small changes and use up the full farm budget allowance of just over Ecu32.5bn ($38.8bn). An extra Ecu60m this year – less than half a day's spending under the Common Agricultural Policy (CAP) – and Ecu200m next year will be added to planned spending.

Mr Ray MacSharry, EC agriculture commissioner, said "he new compromise . . . will include slight modifications on cereals, beef and milk, but no changes in the substance" of the commission's proposals. He stressed that "the commission has gone as far as it can" while still staying within EC law.

The guidelines were set by a European council of heads of government in February 1988, and oblige the commission to make sure they are observed. Ten countries led by France want this year's limit raised to take account of higher than expected spending on east German farms following German reunification.

The new compromise – if such it proves to be – was still being finalised last night prior to ministers embarking on an all-night meeting to pick through its infinitesimal changes. It was hammered out early yesterday morning after the council rejected an earlier attempt to synthesise its positions after three months of debate.

The commission has already softened its proposed price support and production cuts, and agreed to a scheme whereby cuts in the milk quota will be partly restored and paid for in the 1993-97 budgets.

Officials said the main remaining contentious area was beef, source of the CAP's biggest cost overrun and biggest intervention stockpile.

Here also the commission has modified its position. It intends to abolish the "safety net".

This supposedly emergency device has committed the EC to buying in limitless quantities of surplus beef as prices have fallen – and continued to fall because of the overhang on the beef market.

The trigger price for ordinary intervention was also to have been lowered by 8 per cent. The earlier compromise suggested instead that the commission be given greater powers to manage the buying in of beef.

In an angry outburst on Wednesday night Mr MacSharry warned the farm ministers that if they could not make up their minds "others will take the decision for you". Officials made clear this was a threat to take the price package to EC finance ministers, even though a finance council in April failed to resolve the guideline issue.

Mr John Gummer, the UK agriculture minister, who has supported the commission's spending line with the backing of the Netherlands, recognised that this threat "is always a possibility".

But he said that "this would mean that agriculture ministers have failed in their first responsibility, which is to keep their own house in order".

Coarse grain stocks fall forecast

By David Blackwell

WORLD STOCKS of coarse grains are expected to fall to 116m tonnes by the end of 1991-92 – the lowest level for seven years and less than half the stocks at the end of 1986-87, according to the International Wheat Council in its first forecast.

Production, at 830m tonnes, is forecast to fall below consumption for the fifth year in succession, says the IWC in its monthly grain market report. That level would represent a rise of about 7m tonnes over the current season.

While larger crops are expected in the US, the EC and eastern Europe, "significant declines could occur in China and the USSR". The position in Africa appears better than a year ago, and South African production is expected to improve after last season's drought.

Consumption is estimated at 834m tonnes, almost unchanged from the current season. This figure will depend on whether the Soviet Union succeeds in getting finance to cover the cost of imports.

Demand in Far East Asia, where meat consumption is rising quickly, should continue to increase, says the report. US demand for maize for cattle feed is expected to return to normal levels.

The IWC has raised its earlier forecast for wheat in 1991-92 by 10m tonnes to 565m tonnes. This would be second only to the 1990-91 record of 597m tonnes.

The volume of world wheat trade is expected to recover to 97m tonnes, assuming that the Soviet Union will get more credit from exporting countries and that Iraq will resume imports at the same level as before the Gulf war.

Survival is the key to prosperity

John Barham explains moves to restrict Falkland squid catches

THE Falkland Islands might have one of the world's richest and most strictly-controlled fishing zones, but the threat to fish stocks and prosperity is as real as ever.

As always the Illex and Loligo squid, the most prized species in the South Atlantic, are most at risk from overfishing. The menace to the islands' finances is also considerable. Fishing licence sales are the islands' largest source of income, worth £23.7m, or 63 per cent of government operating revenue, this year.

That is why the Falklands is trying to restrict squid capture to 60 per cent of the stock and allow 40 per cent to escape, reproduce and perpetuate the resource. Since squid live for only one year, overfishing could rapidly destroy the entire stock.

Well over half the licences are issued for "jiggers", vessels equipped with powerful lights that operate at night. The squid, attracted by the lights, are caught on lines operated by electonically-controlled winches that work in continuous motion, literally jigging the squid on board, where they are processed and frozen.

A typical jigger will have 90 arms and catch up to 80 tonnes of squid a night.

The largest squid markets are in Southern Europe and Asia, so Japanese, Taiwanese, South Korean and Spanish fleets have the largest presence in Falklands waters.

The first squid fleets probably arrived off the Falklands in 1977. Within five years annual catches exceeded 200,000 tonnes. The Falklands established their first fishing controls in 1986 and now claim to have the best managed fishery in the world.

Nonetheless, Mr John Barton, director of the Fisheries Directorate, recognises that too few squid are escaping. He hopes to raise the escape rate to between 20 per cent and 30 per cent this season, from between 10 per cent and 30 per cent in 1988-9.

The Falklands has cut fishing both by restricting licence sales and by raising prices.

Squid prices have also fallen in a glutted market. In 1990 the Illex catch halved to 102,601 tonnes and the Loligo catch fell by a third to 82,898 tonnes.

The squid are migratory creatures that move southward from feeding grounds in international waters into the Falklands' 150 mile Interim Conservation and Management Zone (FICZ). In 1988-9 30 per cent of the squid escaped capture inside the FICZ. Only 10 per cent survived in the high seas.

This year, therefore, the focus of conservation has shifted to international waters. In agreement with Argentina a 50-mile outer band has been added to the FICZ. No fishing is allowed in the new zone. The Falklands patrols the eastern half of the zone and Argentina the western half, which is part of its 200-mile territorial waters.

British officials said that in technical talks with Argentina this week the two sides agreed to increase the flow of data, discussed carrying out joint research and made a commitment to make policing "more effective".

The Falklands already makes licencees promise to restrict operations in international waters. Although the scheme is highly successful officials remain deeply concerned that overfishing in international waters might yet wreak havoc on the Illex.

The Taiwanese in particular are notorious for violating every control given the chance. Taiwanese ships receive only monthly licenses and officials say they might be banned from Falkland waters next year unless their behaviour improves.

Although Mr Barton says poachers are noticed within an hour, staff say their two aircraft and two slow-moving patrol ships are insufficient to control the waters adequately.

A pilot said: "The poachers always stay on the edge of the zone so they can escape whenever they see us coming." That does mean the patrols do scare off intruders.

The impact of the £100m-a-year fishing industry in the Falklands is uneven. A small number of businessmen are the few direct beneficiaries of the boom, although the industry provides some seasonal jobs for manual labourers and licence revenues are financing infrastructure projects.

The Falklands is unable to provide a satisfactory base for fishing because the islands themselves are supplied from Britain. Officials fear excessive government support for local businesses, such as the earlier encouragement for locals to operate as licence brokers, could encourage corruption.

Mr Mike Summers, head of the Falkland Islands Development Corporation (FIDC), said: "The fact is that locals do not have the money to buy into the fishing industry. But we are giving [foreign companies] the signal to get involved on a genuine basis with local companies. We need to build up a local body of knowledge."

The FIDC is also trying to find a way into the highly protected squid market. Mr Summers said: "There is no access to the Illex markets in Japan or South Korea. We are trying to establish where the money lies, whether it's in services or fishing, which is what goes on here, or whether it is processing or even marketing, most of which is in Asia."

SQUID CATCH

Tonnes	1987	1988	1989	1990
Illex	142,501	209,529	222,272	102,601
Loligo	82,547	53,930	118,883	82,898

Source: Falkland Islands Fisheries Directorate

Fungal threat to Bahia cocoa

By Victoria Griffith in Sao Paolo

BAHIA's cocoa crop could be wiped out within five years by the fungal disease known as "witch's broom" if steps are not taken soon to control it.

That is the prediction of Mr Paulo Fernando Nunes da Cruz, regional superintendent of Ceplac, the government research centre for cocoa, and Mr Ronaldo Monteiro Carvalho, president of the cocoa growers' union.

Witch's broom fungus arrived in the region several years ago from the Amazon. It was not until 1989, however, that the first case was reported to Ceplac. Mr Nunes said: "Farmers here were afraid that if they acknowledged the disease the agricultural ministry would go in and burn down all their trees. That fear kept us from nipping the disease in the bud."

Ceplac has adopted a surgical approach to the disease. Infected sections of the trees are cut off and burned.

So far the fungus has affected 900 out of 39,000 farms in the region. The trouble is that in its later stages the disease can spread very quickly and there is no known cure.

Witch's Broom is not the only fungus plaguing Bahian cocoa farmers. Another disease, known as "black pod" poses an even more immediate threat.

Bahian cocoa farmers have been living with black pod for some time. In the past the disease was easily controlled with chemical pesticide. With the collapse in international cocoa prices in the last few years, however, cocoa farmers have been unable to afford the pesticide. Unprotected, thousands of cocoa trees have succumbed to the fungus.

Brazil appoints coffee policy director

By Victoria Griffith in Sao Paolo

THE BRAZILIAN Ministry of Economics has announced the appointment of Mr Celsius Lodder as its director of coffee policy in the first step to articulating the country's position regarding an international coffee agreement.

Mr Lodder replaces Mr Ricardo Mesquita as head of the department of supply and prices.

With the exit of Mr Mesquita and Ms Zelia Cardoso de Mello, Brazil's economics minister, two weeks ago, the government lost two apparent champions of an international coffee agreement. Many in the coffee sector believe Mr Marcilio Marques Moreira, the new economics minister, will play the most important role in formulating Brazil's position on an international agreement. He is well known for his conciliatory approach to debt negotiations.

Mr Orlando Correa, president of the coffee trade centre in Rio de Janeiro, said: "Changes in the economics ministry are no sign that Brazil will sign a coffee accord, this year."

It is possible no progress will be made until the international coffee talks scheduled for September. "I don't think we will know the government position until then," said Mr Correa.

A Rio-based trader said: "The only thing we know is that the situation cannot be much worse than it is now. Coffee is a neglected sector in Brazil."

The sector is also waiting anxiously to hear the new government's stand on a $110m credit line earmarked for coffee producers.

British cobalt imports up in first quarter

IMPORTS of cobalt into the UK during the first quarter of 1991 were just above 856 tonnes, compared with nearly 679 tonnes during the same period of 1990, official figures show, Reuter reports.

The latest import figures show Zambia and Zaire remain the main suppliers of the metal at nearly 375 tonnes compared with 300 tonnes in first quarter 1990.

Sharply higher imports from the European Community were due to a more than doubling in imports from Belgium to around 121 tonnes.

Other notable rises were Norway at 50 tonnes from 22 tonnes and the Soviet Union at 92 tonnes from just 1.5 tonnes in the 1990 first quarter.

Rubber intervention procedure revised

By Lim Siong Hoon, in Kuala Lumpur

THE International Natural Rubber Organisation is to step up its intervention in the world market by altering the buffer stock manager's buying procedure, delegates agreed at the close of its council session in Kuala Lumpur.

Under the agreement the manager is to enter the market whenever Inro's indicator prices stay below its lower intervention, or "may buy", level of 176 Malaysia/Singapore cents for more than seven days. The "must buy" level is 166 cents.

The move is intended to resuscitate the market, which has been in a slump for nearly two years. In that time the manager has intervened only once, buying about 30,000 tonnes.

Inro's five-day indicator prices have often fallen below the "may buy" level in the past year without prompting any intervention by the manager.

The new procedure has been introduced at the behest of producers, particularly Malaysia and Thailand, who argued that price stabilisation should override cost considerations.

"Inro is not here to make money," said one delegate.

Getting the agreement seemed crucial to producers, not only because of the low prices, but also because the Association of Natural Rubber Producing Countries (ANRPC) is scheduled to meet early next month in Papua New Guinea to discuss the present state of the market.

Last month Thailand said it would pull out of Inro if it, or the ANRPC, did nothing to get rubber out of the doldrums.

To support prices Inro can immediately call up a budget to buy 400,000 tonnes, and by special deliberation funds for a further 150,000 tonnes.

Another issue remains to be dealt with – the daily market indicator price. A report commissioned from Landel Mills Commodities proposed changes to the basis by which the DMIP is calculated.

The proposal, if passed, would have far-reaching consequences on the buffer stock operations.

Three elements are used to determine the DMIP: the types of rubber grades traded, the weighting of each grade, and the four markets to which they are sold.

The DMIP is thought to be distorted in at least two ways. First, TSR 20, which has risen in trading volume, is given a smaller weighting than International RSS One and Three, the other grades in use mainly by Malaysia and Indonesia. Second, the Japanese market is omitted although it forms a substantial portion of total trade.

Thailand, where output has grown from 1m tonnes in 1988 to 1.2m tonnes last year, trades a large portion of its rubber in TSR 20 through the Japanese markets.

The proposal before Inro is to alter the methodology in the calculations to reflect the market's preferences. But several hurdles need to be overcome, including changes to Inro's constitution and other grades of rubber which have found their way into the market.

A third issue raised during the Inro talks related to the transfer of Inro's warehousing from consumer countries to the point of production in south east Asia. Approval was granted instead to the construction of more warehouses in Thailand and the Soviet Union.

Malaysian rubber stocks at the end of March were 193,000 tonnes, up 6 per cent from 182,000 tonnes in December but 11 per cent down from 217,000 tonnes a month earlier.

Production in the first quarter rose 6 per cent to 334,000 tonnes from 313,000 tonnes in the same period last year. The start of crop wintering in March brought output down to 87,000 tonnes from 108,000 tonnes in February.

Forecast output is 1.4m tonnes for 1991, averaging 117,000 tonnes a month from 108,000 tonnes last year.

WORLD COMMODITIES PRICES

MARKET REPORT

Robusta coffee prices continued this week's downward plunge yesterday in London. The market equalled the second position low of £515 set in February before closing at £519 a tonne, a fall of £11 on the day. Light roaster buying interest continued to be evident, but was insufficient to halt the decline. Business was quieter than on Wednesday, but turnover still totalled an active 5,520 lots. New York arabicas were easier at midday. Some New York analysts attributed coffee's recent slide to talk that French trade house Sucres et Denrees would have to liquidate much of its coffee position. On the LME three-month aluminium closed below the $1,320-a-tonne support level, which could trigger further selling today. News that Brazil's Albras smelter will be back to full production in June, after rebuilding output levels since a power cut in March damaged the plant, may have helped the early easing. The smelter has lost more than 30,000 tonnes from 1991 output. Three-month zinc closed below $1,100 a tonne, which could also signal further losses today. Nickel regained some of this week's losses after fluctuating widely all day. Dealers said recent declines have left the market heavily oversold, so some sort of technical bounce was expected.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$15.90-6.00u	+.125
Brent Blend (dated)	$18.70-8.80	+0.15
Brent Blend (Jul)	$19.20-9.30	+.075
W.T.I. (1 pm est)	$20.90-1.00u	+.175
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$245-247	+1
Gas Oil	$184-185	
Heavy Fuel Oil	$69-71	
Naphtha	$209-211	+1½
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$355.55	-0.75
Silver (per troy oz)♣	406.5c	+3.0
Platinum (per troy oz)	$389.55	-3.45
Palladium (per troy oz)	$93.75	-1.25
Aluminium (free market)	$1280	-15
Copper (US Producer)	104c	
Lead (US Producer)	33c	
Nickel (free market)	378c	+1
Tin (Kuala Lumpur market)	15.28r	-0.16
Tin (New York)	268c	+1
Zinc (US Prime Western)	62c	
Cattle (live weight)†	113.47p	+0.19*
Sheep (dead weight)†	161.91p	-30.88
Pigs (live weight)†	86.91p	-3.96*
London daily sugar (raw)	$200.5q	-0.5
London daily sugar (white)	$290.0q	-0.5
Tate and Lyle export price	£223.5	+0.5
Barley (English feed)	£108v	
Maize (US No. 3 yellow)	£160.0	+0.5
Wheat (US Dark Northern)	£100	
Rubber (Jun)♥	63.00p	-0.25
Rubber (Jul)♥	63.50p	-0.25
Rubber (KL RSS No 1 Jun)	226.5m	
Coconut oil (Philippines)§	$337.5v	
Palm Oil (Malaysian)§	$317.5	-5.0
Copra (Philippines)§	$227.5x	
Soyabeans (US)	£160.5	+2.0
Cotton "A" index	85.55c	-0.70
Wooltops (64s Super)	354p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jun/Jul t-Jun u-Jul v-Jul/Aug. x-Jul/Aug. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Aug	171.80	170.60	171.40 170.00
Oct	171.20	170.00	171.40 169.00
Mar	172.40	171.80	171.80
May	172.40	170.80	171.60 170.40
Aug	176.00	173.80	173.00 172.60
Oct	181.20	177.00	
White	Close	Previous	High/Low
Aug	285.0	278.8	286.0 276.4
Oct	254.0	248.0	255.0 249.0
Dec	247.0	242.5	245.8 241.2
Mar	248.0	244.5	245.0 243.8
May	249.0		252.0
Aug	257.0		255.0
Oct	251.0		251.0 242.5

Turnover: Raw 281 (488) lots of 50 tonnes. White 1501 (1470)
Paris- White (FFr per tonne): Aug 1682, Oct 1474.

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Jul	19.25	19.13	19.37 19.10
Aug	19.45	19.40	19.56 19.40
Sep	19.61	19.66	19.70 19.57
Oct	19.80	19.76	19.80 19.73
Nov	19.78	19.96	19.85 19.78
Dec	19.78		19.83 19.78
IPE Index	19.22	19.43	

Turnover 11751 (7476)

GAS OIL – IPE $/tonne

	Latest	Previous	High/Low
Jun	180.00	179.25	180.25 179.00
Jul	175.75	175.00	176.50 174.75
Aug	177.25	176.75	177.75 176.50
Sep	179.50	178.50	179.50 179.00
Oct	183.00	181.75	182.75 180.75
Nov	184.00	183.00	183.75 182.25
Dec	184.75	184.00	185.00 184.00
Jan	182.75	181.00	183.00 182.00
Feb	179.25	178.75	179.00 178.00

Turnover 5447 (6684) lots of 100 tonnes

FRUIT & VEGETABLES

'Cape Golden Delicious are superb value this week at 45-55p a lb (45-55p), reports the FFVIB. Royal Gala and Gala apples from New Zealand are also plentiful at 65-70p (65-70p). Spanis strawberries are 55-70p a ½ lb and grapefruit 15-25p each. Spanis broccoli at 60-80p a lb and 35-45p per 8oz pre-pack is abundant. Other good vegetables include cauliflower at 40-60p each, asparagus at £1.20-1.80 a lb and new English potatoes at 40-60p a lb, with Jersey Royals at 45-55p a lb. English tomatoes at 50-65p a lb, cucumber at 50-65p each. Round lettuce at 15-25p each and Iceberg at 60-95p each are all plentiful.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
May	580	585	580
Jul	600	600	602 596
Sep	627	628	630 625
Dec	664	665	668 662
Mar	697	699	700 696
May	721	722	722 719
Jul	742	744	745 740

Turnover: 1738 (8619) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 22 768.95 (783.12) 10 day average for May 23 783.42 (788.43)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
May	494	505	505 486
Jul	519	530	532 515
Sep	541	554	557 541
Nov	565	574	580 564
Jan	587	591	601 590
Mar	614	612	618 610

Turnover:5520 (10539) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 22 : Comp. daily 66.12 (67.06). 15 day average 67.96 (68.14)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Mar	131.5	131.2	
Apr	134.0	133.0	133.7 132.5

Turnover 23 (84) lots of 40 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Aug	130.00	130.50	130.00
Oct	133.50	134.00	133.50
Dec	136.50	137.00	136.50

Turnover 45 (106) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low
May	1740	1715	1745 1720
Jun	1705	1663	1711 1690
Jul	1575	1532	1582 1540
Oct	1673	1630	1675 1655
Jan	1678	1625	1675 1650
BFI	1699	1665	

Turnover 416 (655)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low
May	135.35	135.50	135.60
Jun	134.50	135.80	136.10 134.50
Sep	111.45	111.30	111.45
Nov	114.25	114.10	114.30 114.25
Jan	117.80	117.65	117.80 117.80
Mar	120.85	120.65	120.85
Barley	Close	Previous	High/Low
May	119.50	122.00	
Sep	107.70	107.90	
Nov	111.50	111.60	

Turnover: Wheat 275 (321), Barley 0 (11).
Turnover lots of 100 tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	121.0	120.0	120.8 120.0
Jul	118.0	117.5	118.0
Aug	116.0	114.0	117.0 115.0
Sep	116.5	113.5	117.0 115.0
Oct	116.0	113.5	117.0 114.0

Turnover:106 (94) lots of 3,250 kg

[illegible] – London FOX

	Close	Prev.	High	Low	Vol
Indx	139.01	140.14			
Jun	140.10	141.90	140.10	139.70	94
Jul	140.20	142.00	140.40	140.20	140
Sep	140.50	141.90	140.90	140.50	60

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 22,745 lots
Cash	1288-90	1295-7		1286-7		
3 months	1318-9	1327-8	1325/1315	1317-8	1317-8	82,090 lots
Copper, Grade A (£ per tonne)						Total daily turnover 28,589 lots
Cash	1284-5	1294-6	1296/1285	1295-6		
3 months	1296-7	1306-9	1311/1293	1309-10	1294-5	117,777 lots
Lead (£ per tonne)						Total daily turnover 1,908 lots
Cash	318-9	319-21	319/318	318.5-9.0		
3 months	330-1	333-4	332/326.5	331-1.5	326.5-7.0	14,082 lots
Nickel ($ per tonne)						Total daily turnover 5,710 lots
Cash	8125-35	8030-50		8070-80		
3 months	8160-70	8075-85	8175/8075	8114-5	8110-20	12,022 lots
Tin ($ per tonne)						Total daily turnover 1,876 lots
Cash	5670-80	5625-35		5675-80		
3 months	5755-60	5710-5	5760/5720	5760-5	5145-55	6,832 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 5,303 lots
Cash	1082-4	1085-7	1083/1083	1083-3.5		
3 months	1097-8	1101-3	1101/1095	1098-8.5	1096-7	28,825 lots

LME Closing £/$ rate: SPOT: 1.7365 3 months: 1.7125 6 months: 1.6949 9 months: 1.6809

LONDON BULLION MARKET
(Prices supplied by N.M.Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	355.30-355.80	
Opening	354.70-355.10	
Morning fix	355.00	206.916
Afternoon fix	354.90	205.858
Day's high	355.40-355.80	
Day's low	354.40-354.80	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.29	6 months	5.16
2 months	5.24	12 months	5.11
3 months	5.21		

Silver fix	p/fine oz	US cts equiv
Spot	234.60	403.75
3 months	241.20	409.65
6 months	247.50	415.80
12 months	259.75	429.40

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	355.00-358.90	208.00-208.50
Maple leaf	364.00-365.00	211.50-212.00
New Sovereign	85.00-86.00	49.50-50.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jun	Jul	Jun	Jul
1200	110	138	3	11
1300	37	67	29	40
1400	6	28	97	97
Copper (Grade A)	**Calls**		**Puts**	
2150	109	121	21	58
2250	50	71	61	104
2350	18	38	128	169
Coffee	Jul	Sep	Jul	Sep
450	87	92		1
500	25	48	8	8
550	5	20	33	29
Cocoa	Jul	Sep	Jul	Sep
550	50	81	1	4
600	13	43	14	16
650	2	16	53	41
Brent Crude	Jul	Aug	Jul	Aug
1850				
1900		54	24	45
1950	33	65	24	67

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
May	355.2	356.3	0	0
Jun	355.5	356.8	356.5	354.8
Jul	356.8	358.1	0	0
Aug	358.1	359.4	359.0	357.5
Oct	361.2	362.6	362.2	360.8
Dec	364.3	365.7	365.0	363.8
Feb	367.7	369.1	368.3	367.8
Apr	370.8	372.2	371.3	371.3
Jun	374.4	375.6	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	391.3	392.1	396.0	389.0
Oct	395.6	396.5	400.0	394.0
Jan	399.8	400.7	400.0	399.0
Apr	403.8	404.7	403.6	403.8
Jul	407.8	408.7	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
May	403.9	403.2	403.0	402.0
Jun	404.2	403.2	0	0
Jul	406.3	405.8	408.0	403.5
Sep	411.2	410.7	411.5	408.5
Dec	418.1	417.6	418.5	415.5
Jan	420.1	419.6	0	0
Mar	425.6	425.1	424.5	424.5
May	430.9	430.4	432.0	432.0
Jul	436.1	435.6	0	0
Sep	441.8	441.3	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	100.80	100.30	101.50	100.30
Jun	100.40	99.85	100.80	99.70
Jul	99.20	98.55	0	98.35
Aug	98.70	98.15	0	0
Sep	98.20	97.75	98.80	97.75
Oct	97.85	97.45	0	0
Nov	97.55	97.15	0	0
Dec	97.20	96.85	97.60	97.20
Jan	96.85	96.55	0	0
Feb	96.55	96.25	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jul	20.99	20.83	21.06	20.90
Aug	20.98	20.91	21.12	20.93
Sep	21.08	21.02	21.20	21.03
Oct	21.15	21.14	21.28	21.15
Nov	21.24	21.22	21.36	21.24
Dec	21.31	21.30	21.42	21.30
Jan	21.25	21.24	21.36	21.24
Feb	21.25	21.19	21.25	21.25
Mar	21.15	21.15	21.20	21.15
Apr	21.17	21.12	21.18	21.15

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jun	5610	5603	5650	5600
Jul	5650	5649	5710	5635
Aug	5710	5719	5770	5700
Sep	5845	5859	5900	5840
Oct	5945	5959	6000	5935
Nov	6030	6051	6095	6030
Dec	6120	6142	6190	6115
Jan	6135	6160	6200	6130
Feb	6050	6085	6100	6040
Mar	5835	5850	5885	5820

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	978	978	988	974
Sep	1006	1006	1013	1001
Dec	1051	1048	1054	1045
Mar	1092	1088	1095	1086
May	1117	1119	1120	1120
Jul	1146	1147	0	0
Sep	1173	1174	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	86.50	86.80	87.45	86.10
Sep	88.80	89.05	89.50	88.30
Dec	92.05	92.15	92.75	91.60
Mar	94.90	95.15	95.65	94.75
May	96.50	97.15	97.50	96.50
Jul	99.00	99.25	0	0
Sep	100.60	100.90	101.50	101.50

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	7.99	7.93	8.06	7.91
Oct	7.72	7.64	7.72	7.60
Mar	7.79	7.69	7.79	7.67
May	7.90	7.80	7.86	7.80
Jul	8.01	7.94	0	0
Oct	8.17	8.05	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	89.86	91.86	90.40	89.86
Oct	79.18	80.60	79.60	78.60
Dec	73.53	74.05	73.90	72.60
Mar	74.45	74.86	74.90	73.60
May	74.92	75.28	75.00	74.10
Jul	75.00	75.70	75.30	74.85

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	122.35	120.80	122.80	120.00
Sep	120.80	120.15	121.50	119.60
Nov	119.00	118.50	119.60	119.00

INDICES

REUTERS (Base: September 18 1931 = 100)

May 23	May 22	mnth ago	yr ago
1726.0	1723.8	1750.8	1920.7

DOW JONES (Base: Dec. 31 1974 = 100)

	May 22	May 21	mnth ago	yr ago
Spot	129.17	128.82	125.35	135.67
Futures	126.10	126.38	127.80	133.17

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	582/0	579/4	582/4	578/0
Aug	586/6	583/4	587/0	582/4
Sep	586/2	584/6	586/4	584/2
Nov	597/2	593/2	597/4	592/2
Jan	606/0	603/6	606/0	603/4
Mar	619/0	614/4	619/0	614/6
May	627/4	622/0	627/4	622/4
Jul	633/2	630/0	633/4	628/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	20.43	20.16	20.44	20.13
Aug	20.59	20.36	20.61	20.33
Sep	20.76	20.55	20.78	20.53
Oct	20.90	20.70	20.95	20.72
Dec	21.26	21.02	21.27	21.02
Jan	21.40	21.16	21.40	21.28
Mar	21.72	21.46	21.72	21.60
May	22.02	21.77	22.02	21.98

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	174.3	173.8	174.7	172.8
Aug	175.3	174.8	175.3	174.1
Sep	176.7	176.1	176.7	175.5
Oct	177.8	177.4	177.8	176.5
Dec	180.2	179.4	180.3	179.0
Jan	181.0	180.2	181.0	179.7
Mar	182.0	1181.5	182.0	180.7
May	182.5	181.0	183.3	182.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
May	261/0	259/4	261/0	259/0
Jul	251/0	249/6	251/2	248/2
Sep	250/2	248/4	250/2	247/2
Dec	249/6	247/6	250/0	246/4
Mar	257/4	256/2	257/4	254/0
Jul	265/6	264/2	265/6	262/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
May	322/4	324/0	322/4	321/4
Jul	298/6	0	298/2	295/4
Sep	305/4	305/0	305/4	303/6
Dec	316/0	318/6	318/2	316/0
Mar	325/4	326/0	326/6	323/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	75.52	75.22	75.75	75.35
Aug	73.50	73.22	73.72	73.27
Oct	74.67	74.77	75.07	74.70
Dec	75.47	75.40	75.67	75.30
Feb	74.92	74.90	75.20	74.87
Apr	75.75	75.55	75.75	75.55
Jun	74.35	74.20	74.35	74.05

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	57.62	56.95	57.75	57.65
Jul	55.80	55.07	55.85	55.15
Aug	52.77	52.22	52.90	52.40
Oct	47.65	47.10	47.77	47.35
Dec	47.50	47.02	47.77	47.27
Feb	47.60	47.15	47.60	47.30
Apr	45.57	45.05	45.75	45.60
Jun	49.75	49.75	0	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
May	60.22	59.60	61.25	59.50
Jul	58.30	58.55	59.35	58.00
Aug	54.72	53.20	54.95	53.30
Feb	58.37	55.70	58.95	56.30
Mar	58.30	55.60	58.45	56.45
May	58.50	0	56.50	56.50
Jul	58.50	0	56.80	56.80

LONDON STOCK EXCHANGE

Base rate hopes drive equities higher

THE tug-of-war between inflation and interest rate pressures within the UK came to the boil in the London stock market yesterday, when share prices responded optimistically to speculation that the UK authorities plan to cut domestic interest rates today.

Operations in the London money markets yesterday afternoon by the Bank of England appeared to indicate that the UK central bank might accept the half-point cut in UK base rates as a first step to the 1¼-point reduction on which the London stock market is now fixing its hopes. Yesterday's continued firmness in the sterling exchange rate index encouraged hopes that the widely expected cut in base rates cannot be too far away.

However, the equity market's response was muted and

Account Dealing Dates			
First Dealings:	Apr 29	May 20	Jun 3
Option Declarations:	May 16	May 30	Jun 13
Last Dealings:	May 17	May 31	Jun 14
Account Day:	May 28	Jun 10	Jun 24

*New-time dealings may take place from 9.00 am two business days earlier.

share prices closed below the best levels of the day in spite of a firm opening to the new Wall Street session. Investment confidence was checked by the disclosure of a virtually unchanged UK trade balance for last month, which seemed to cast doubts over the recent improvement in Britain's balance of payments.

After a slow start, the FT-SE Index added nearly 19 points at the day's best, before shading off the top in late trading when some profits were taken. The final reckoning showed the Footsie index at 2,482.8 with a net gain of 16.9.

The market advance lent heavily on gains in a few specific stocks. ICI moved up smartly, with Wellcome, the pharmaceuticals group, also strong on market hints that the problems over Hanson's interest in ICI could be solved by a link-up on the drugs side between ICI and Wellcome, the drugs group famed for its anti-aids products. Such suggestions were first heard last week, immediately after Hanson acquired its stake in the blue chip UK chemical company.

Equity investors were again disturbed by fresh evidence of the effect on UK corporate trading of the recessionary pressures which lie behind the urgent calls for further cuts in domestic base rates. Storehouse, which through its British Home Stores and Habitat subsidiaries reflects a major sector in UK retailing, commented that "the spring sale has not happened and the second half of last year has been pretty bloody - but we are out there fighting".

Seaq trading volume remained disappointingly low at 422.1m shares against 459.4m in the previous session, which was marked by increased selling pressure, according to market traders. Analysts remained depressed by the overall corporate background and again flinched in the face of suggestions that further rights issues could soon fall on a market already badly hurt by the weight of fund-raising moves since the turn of the year.

Most of the international blue chips stocks were firmer yesterday with the notable exception of the oil sector, which failed to follow the rest of the London market.

Market strategists appeared slow to accept yesterday's rally in equities, which still left the FT-SE Index well short of the 2,500 mark regarded as the significant turning point for equities. Equity market chart strategists remained particularly cautious, with Mr Richard Lake of Hoare Govett, the London brokerage house, warning that the Footsie index may now be "working downwards" with a short-term correction to the 2,300 level likely. He believes that London is at risk to a Dow Jones Industrial Average poised to break downwards just as the Nikkei average has turned bearish.

FINANCIAL TIMES STOCK INDICES

	May 23	May 22	May 21	May 20	May 17	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	84.47	84.49	84.37	84.18	84.04	78.38	85.88 (19/2)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	93.48	93.49	93.41	93.38	93.51	87.29	94.84 (5/4)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share●	1945.4	1933.4	1942.5	1927.3	1926.2	1805.2	2014.5 (5/4)	1608.3 (16/1)	2014.5 (5/4/91)	49.4 (26/6/40)
Gold Mines	164.4	165.9	159.2	156.4	155.8	209.7	179.7 (14/1)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2482.8	2465.9	2482.7	2466.6	2453.9	2277.1	2545.3 (5/4)	2054.8 (16/1)	2545.3 (5/4/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1166.06	1165.21	1162.66	1154.43‡	1151.02	-	1176.39 (15/4)	938.62 (16/1)	1176.39 (15/4/91)	938.62 (16/1/91)
●Ord. Div. Yield	4.92	4.85	4.93	4.95	4.96	5.08				
●Earning Yld %(full)	8.59	8.65	8.64	8.69	8.71	11.49				
●P/E Ratio(Net)(☆)	14.33	14.23	14.30	14.22	14.19	10.52				
SEAQ Bargns 4.45pm	24,000	27,335	26,178	24,575	32,707	24,440				
Equity Turnover(£m)†	-	889.24	738.79	573.84	889.00	1077.70				
Equity Bargains†	-	27,344	25,526	24,486	32,394	25,267				
Shares Traded (ml)†	-	407.0	371.5	278.8	409.7	360.8				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 13.74 ‡ Indicative

Ordinary Share Index, Hourly changes Day's High 1947.1 Day's Low 1934.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1934.5	1936.3	1938.8	1941.3	1941.1	1941.4	1941.3	1943.6	1943.7

FT-SE 100, Hourly changes Day's High 2484.6 Day's Low 2466.6

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2466.6	2471.0	2475.1	2476.7	2475.4	2476.6	2476.9	2480.1	2481.7

FT-SE Eurotrack 200, Hourly changes Day's High 1168.65 Day's Low 1163.04

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1164.30	1164.50	1163.04	N/A	1164.51	1165.05	1167.59

GILT EDGED ACTIVITY

Indices*	May 22	May 21
Gilt Edged Bargains	91.2	93.7
5 – Day average	93.4	94.7

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	2,700	70½	+½
ASDA Group	1,700	111	
Abbey National	2,300	277	+1
Albert Fisher	1,200	119	
Allied-Lyons	2,200	552	-3
Amstrad	1,700	65	
Anglian Water	983	303	+3
Argos	1,100	317	+7
Argyll Group	1,260	295	+1
Ass. Brit. Foods	321	521	+8
BAA	813	433	+6
BAT Inds.	1,000	697	-2
[illegible]			
British Gas	4,400	245	+2
British Land	316	279	+1
BP	3,400	322	-3
British Steel	5,700	127½	+½
British Telecom	9,400	383½	+10½
Bunzl	42	90	
Burmah Castrol	1,100	653	+4
Burton	8,800	77	-1½
Cable & Wire.	4,000	511	+2
Cadbury	915	365	-2
Calor Group	172	208	-3
Carlton Comms.	524	445	+12
Coats Viyella	847	145	
Comm. Union	208	480	+2
Cookson	280	126	+5
Courtaulds	2,000	383	+8

	Volume 000's	Closing Price	Day's change
Dalgety	684	388	+2
De La Rue	221	367	
Dixons	1,300	202	+2
ECC Group	1,000	419	
Eastern Elect.	436	197	+1
East Midland Elect	882	219	+3
Enterprise Oil	1,200	630	+2
Eurotunnel Units	105	465	-10
FKI	574	58	
Ferranti	2,700	11	
Fisons	1,260	474½	+3½
Gen. Accident	694	537	+7
[illegible]			
ICI	2,700	1246	+19
Inchcape	274	336	+1
Kingfisher	1,200	484	+1
Ladbroke	2,200	267	+5
Land Securities	1,700	517	-4
Laporte	67	656	+1
Legal & General	638	423	+1
Lloyds Abbey	2,600	394	-1
Lloyds Bank	3,700	342	+11
LASMO	211	331	-4
London Elect.	231	213	
Lonrho	2,600	254	-3
Lucas	60	166	+1
MB Caradon	680	221	+1
MEPC	409	409	-2

	Volume 000's	Closing Price	Day's change
Manpower	852	71	+1
Manweb	863	264	+4
Marks & Spencer	8,100	252	
Maxwell Comms	465	218	+1
Midland Bank	881	211	+2
Midlands Elect	344	214	+1
NatWest Bank	6,300	322	+8
National Power	8,500	141	+½
Next	62	25½	
North West Water	1,800	303	+2
Northern Elect.	135	220	
Northern Foods	330	441	+1
[illegible]			
Redland	646	295	+6
Reuters	1,800	850	+27
Rolls Royce	523	154½	+1½
Rothmans	298	823	+25
Ryl Bk Scotland	829	178	+3
Royal Insurance	231	436	+3
Saatchi	7,400	18¼	-½
Sainsbury	1,400	377	+2
Scottish & New.	1,100	392	+1
Sears	1,300	82	+1
Sedgwick	1,000	244	+3
Seeboard	482	214	
Severn Trent Water	2,200	288	+6
Shell Transport	2,800	505	-1
Siebe	265	395	+1

	Volume 000's	Closing Price	Day's change
Slough Est	877	245	-1
Smith (W.H.) A	1,700	394	+12
Smith & Nephew	541	129½	+2
SmKl Beecham	1,100	784	+12
SmKl Beecham Uts.	150	[illegible]	+60
Smiths Inds.	239	253½	-½
Southern Elect.	269	218	+1
South Wales Elect.	125	289	
South West Water	598	298	+5
South West. Elect.	627	320	+2
Southern Water	877	287	+1
Standard Chartd.	386	363	+9
[illegible]			
United Biscuits	704	386	-3
Utd. Newspapers	344	348	
Water Package Uts.	3	£3035	+37
Wellcome	1,000	608	+19
Welsh Water	645	332	+4
Wessex Water	191	331	-2
Whitbread 'A'	1,800	486	+13
Wiggins Teape	288	237	+1
Williams Hldgs.	1,300	288	+2
Willis Corroon	714	292	-3
Wimpey	184	205	+1
Yorkshire Elect.	112	247	+½
Yorkshire Water	605	330	+4

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

Spoiling tactics denied

THE speculation surrounding ICI, triggered by last week's stock market raid by Hanson, which accumulated a 2.8 per cent stake in the chemicals giant, continued yesterday as the market reacted to suggestions of a link-up between ICI and Wellcome in a spoiling move against any Hanson bid.

Shrugging aside press suggestions that political opposition to any predatory moves against ICI was growing, ICI shares progressed to close 19 higher at 1246p. Turnover was a respectable 2.7m shares, with speculators said to be betting on imminent further developments in the situation. The stories of a pharmaceuticals link between ICI and Wellcome were reported as being denied by the latter. Hanson settled 1½ firmer at 212p on 6.4m.

Wellcome shares, which had been strongly boosted by a buy recommendation from US brokerage house Lehman Bros, closed 9 higher at 608p on volume of 1m.

Storehouse active

A two-way pull developed in Storehouse, the retailing conglomerate, after it reported annual profits down by more than a half at £6.2m. The figures were depressed by an exceptional item of £14.8m.

The shares initially dipped on the results. However, before exceptional items, profits were close to expectations and this encouraged some buying at the lower levels, leaving the stock unchanged at 101p on turnover of 5.2m.

Opinion is divided on Storehouse, with some specialists not expecting a strong recovery in the depressed and increasingly competitive retail market. Others say it would only take a small percentage increase in sales to feed through into higher profits. Profits of £21m prior to exceptional items compare with sales of £1.2bn, making it one of the most operationally geared retailers.

Lloyds Bank rises

A largely lacklustre showing by the banks was reversed in mid-afternoon when Lloyds Bank spearheaded a strong and sustained upturn in the sector.

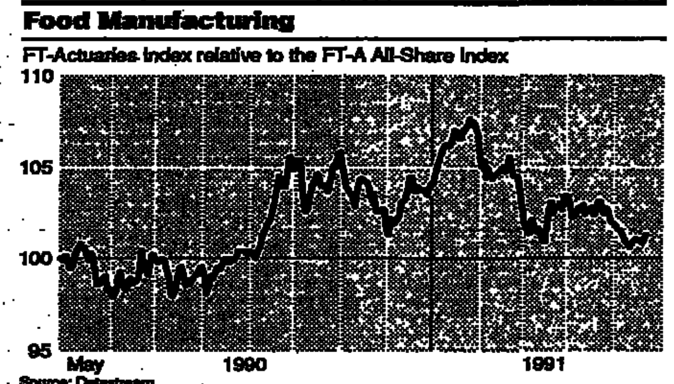
Driving Lloyds higher, as well as the sector, was a story that a leading investment bank had adopted a highly positive stance on Lloyds after a City lunch, increasing its profits and dividend forecasts for the bank.

Dealers said Lloyds was set on a policy of real growth in its dividend and that the bad debts situation was not as severe as had been thought. Lloyds has been badly affected by the problems over Mr Larry Goodman's business, as well as Polly Peck and International Leisure. It is thought to be a lender to Brent Walker.

There were suggestions that Lloyds had controlled costs, and that there was the possibility of it writing back some of its LDC (lesser developed country) debt provisions.

Lloyds Bank shares ended a net 11 higher at 342p after heavy turnover of 3.3m.

Food Manufacturing



Source: Datastream

In spite of the second worst recession since World War II, food manufacturing has not provided much of a safe haven for investors. As well as proving to be less recession-proof than previously thought, the sector has suffered from lack of any major bid activity. In the last year, Sir James Goldsmith sold his 28.5 per cent stake in Ranks Hovis McDougall; General Cinema disposed of its 17 per cent interest in Cadbury Schweppes; and Mr Larry Goodman sold his 9 per cent holding in Unigate. Furthermore, economic recovery may boost cyclical stocks before food manufacturers, analysts believe.

BT pleases

The market gave an immediate and positive response to the preliminary figures from BT (formerly British Telecom), which revealed profits – up 14 per cent for the year – and the dividend – increased by almost 13 per cent for the 12 months – at the top end of market estimates.

BT stock, a strong performer throughout the week, closed 10½ ahead at 383½p with turnover reaching 9.4m, well above its usual levels.

Most analysts were pleasantly surprised by the figures, and pointed out that the uptick in profits was largely due to a lower than expected tax charge and a steep reduction in staffing levels, which were some 18,500 down over the year. On the latter, specialists said the company now looks likely to achieve targeted job cuts of 35,000 a year ahead of the scheduled March 1993.

Mr John S Clarke, electronics analyst at Daiwa, the Japanese securities house, said he was looking for profits of £3.3bn in the current year. He added that there was "still plenty of upside potential in the shares", which he thinks "will still outperform in the market". Mr Chris Tucker at Carr Kitcat & Aitken said he was sticking with his current year number of £3.31bn: "We remain positive on the stock."

Courtaulds overcame the consensus view that the group would be stretched to repeat last year's growth in earnings and moved ahead 8 further to 395p. Most investment houses put the stock on hold with a recommendation to be over-weight though it undervalued. Analysts Mr John Dorse and Mr Martin Evans said any relative weakness following Wednesday's good figures should be used as an opportunity to acquire stock in a well managed company which, on an 11 per cent discount, is by no means expensive given the steady earnings outlook.

Whitbread, one of the four big brewers, beat market expectations with a near 10 per cent rise in annual profits to £291.5m, and a similar increase in total dividend distribution. Analyst Mr Mike McCarthy of Smith New Court was impressed, saying: "Unlike others in the sector, Whitbread has successfully used the period of recession as a time to invest in its estates and concepts, leaving it very well placed to spot any revival in consumer confidence." The "A" shares regained Wednesday's fall and closed 13 up at 486p.

Positive advice both from Hoare Govett and BZW in the wake of Wednesday's lower profits touched off a rally in Bass, which regained 17 to 971p. County NatWest thought the shares were likely to mark time for a while and maintained its stance to sell into strength. BZW also afforded a buy rating to Grand Metropolitan, up 13 at 777p.

Guinness, on the other hand, was beset by reports emanating from the traded options market that French group LVMH, in which it holds a 24 per cent stake, could be considering fund-raising. Guinness shares weakened 24 before rallying smartly behind an official denial by LVMH to end just a penny off on the session at 938p. Talk of agency broker James Capel being positive on the stock helped the recovery.

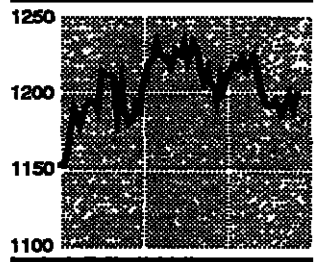
Sovereign Oil & Gas fell sharply by 16 to 110p, reflecting worries about a possible downgrading of its Emerald field reserves.

Hopes of a counter-offer saw shares of retail pharmacy group Macarthy move above the level of the all-paper hostile bid from Scottish-based mini-conglomerate Grampian Holdings. Speculation on the identity of the possible third party ranged between Kingfisher, Lloyds Chemists, AAH Holdings and Unichem, the company which Macarthy tried to acquire three years ago. Some traders were of the opinion that the exit price for Macarthy (up 32 more at 224p) could be around 240p.

Medeva, the fast-expanding pharmaceutical company, recorded unusually heavy turnover of 13m shares yesterday, the day the funding arrangements were unveiled for its first US acquisition. These entail the placing of 45m new shares at 126p each, subject to an open offer to existing shareholders. Single trades of 4m and 3.8m shares, both at 150p, were done as the stock advanced 10 to 149p.

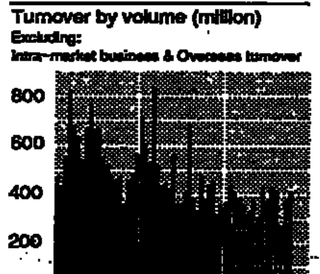
■ Other market statistics, including the FT-Actuaries share index and London Traded Options, Page 24

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1991

NEW HIGHS (97). BRITISH FUNDS (8) [illegible] ... Bulmer (HP), Guinness 8¼pc Cnv., BUILDINGS (1) Berkeley, CHEMICALS (2) Halstead (J), Plysu, STORES (4) Argos, Essex Furniture, OS, Sharwood, ELECTRICALS (2) British Telecom, Butler Cox, P-E Ind., ELECTRICITY (2) East Midlands, Manweb, ENGINEERING (1) VSEL Consortium, INDUSTRIALS (12) Alfa-Laval, Amberley, Assoc. Brit. Ports, Astra A, Baspak, Carbo, Lionheart, Macarthy, Medeva, Pathfinders, Sanders & Sidney, Serco, Wood (A), LEISURE (2) Euro Disney, Intl. Resort, PAPERS (1) Abbott Mead Vickers, TRANSPORT (1) Dawsongroup.

TRUSTS (11) Archimedes Inc., Bankers', City of Oxford Zero Prf., [illegible] ... Templeton Emerging Mkts., Tor Inc., OILS (1) Petrofina, MINES (2) Doral Res., ERGO.

NEW LOWS (26). BUILDINGS (3) Dunton, Prowting, Turriff, ELECTRICALS (1) Hiclars, FOODS (1) REA, INDUSTRIALS (3) Apollo Metals, Gestetner, Hawthorn Leslie, INSURANCE (2) Sturge, Trade Indemnity, LEISURE (3) Grampian TV A, TV-am, PROPERTY (3) Brit. Land 8¾pc Conv. 2011, Trencherwood, Wates City of Lon., TRUSTS (1) First Ireland Wrrnts., OILS (4) Aviva, Sovereign, Tarado, XCL Sunrise, MINES (4) Cluff, Do. Warrants, Geevor, Placer Pacific.

EQUITY FUTURES AND OPTIONS TRADING

GUINNESS suffered a sharp early decline following an options market trade which reflected anticipation of a large fall in its share price by the end of the summer.

The movement was triggered after Anglo Pierson bought 200 August 850 puts at 8½p, an investment which gives the option holder the right to sell 200,000 Guinness shares at 850p any time until the end of August.

There was also speculation that LVMH, the French luxury goods group in which Guinness has a 24 per cent stake, was planning to make a rights issue. This was later denied.

Talk of Guinness bond holders converting into equity later in the month also weakened the shares, but they rallied to close 4 down at 935p. The November 900 calls were also actively traded.

British Telecom 390 calls were bought and August 360 puts sold after stronger than expected final profits. Hopes of a recovery in Sears again prompted activity in its options. A buyer of 500 December 100 calls boosted turnover. GEC August 200 calls and Hanson August 220 puts were also busy markets.

FT-SE 100 index futures continued to lack any inclination to lead the stock market. June closed 22 points up at 2,495 and maintained a premium to the spot index of around the fair value level of 10 points.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1991 High	1991 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	99[illegible]	.....	10.02	11.32
[illegible]	[illegible]	[illegible]	100	.....	11.00	10.87
[illegible]	[illegible]	[illegible]	[illegible]	.....	8.11	10.62
[illegible]						

Five to Fifteen Years

1991 High	1991 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
100¼	95[illegible]	Conversion 10pc 1996	98[illegible]	.....	10.12	[illegible]
49¼	48[illegible]	Do. 10pc 1996 B	48[illegible]	.....	10.11	[illegible]
113[illegible]	108[illegible]	Treas 13¼pc 1997‡‡	111⅛	.....	11.90	[illegible]
102¼	97¼	Exch 10½pc 1997	100⅝	.....	10.43	[illegible]
94[illegible]	89[illegible]	Treas 8¾pc 1997‡‡	92[illegible]	.....	9.41	[illegible]
122[illegible]	117	Exch 15pc 1997	119[illegible]	.....	12.52	[illegible]
98[illegible]	93[illegible]	Exch. 9¾pc 1998	96[illegible]	.....	10.06	[illegible]
85[illegible]	80⅝	Treas 6¾pc 1995-98‡‡	85	.....	7.94	[illegible]
127[illegible]	121¼	Treas. 15½pc '98‡‡	124[illegible]	.....	12.44	[illegible]
109[illegible]	104½	Exch. 12pc 1998	107¼	+[illegible]	11.15	[illegible]
97[illegible]	92[illegible]	Treas 9½pc 1999‡‡	95[illegible]	–[illegible]	9.90	[illegible]
111[illegible]	105[illegible]	Exch. 12¼pc 1999	109[illegible]	+[illegible]	11.24	[illegible]
102¼	97[illegible]	Treas. 10½pc 1999	100[illegible]	+[illegible]	10.44	[illegible]
101¼	95[illegible]	Conversion 10¼pc 1999	99¼	.....	10.34	[illegible]
94[illegible]	89⅝	Conversion 9pc 2000‡‡	92[illegible]	–[illegible]	9.69	[illegible]
116[illegible]	110½	Treas. 13pc 2000	113[illegible]	–[illegible]	11.43	[illegible]
116[illegible]	113[illegible]	Do. 13pc 2000 A	113[illegible]	.....	11.43	[illegible]
100[illegible]	94[illegible]	Treas 10pc 2001	97[illegible]	.....	10.21	[illegible]
118[illegible]	113[illegible]	Treas. 14pc '98-01	115[illegible]	.....	12.08	[illegible]

BRITISH FUNDS—Contd

1991 High	1991 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
98⅝	92[illegible]	Treas 9¾pc 2002	96	–⅛	10.16	10.34
100[illegible]	94[illegible]	Treas 10pc 2003	97[illegible]	–[illegible]	10.24	10.32
108¼	102	Treas. 11½pc 2001-04	105[illegible]	–[illegible]	10.88	10.53
58[illegible]	53[illegible]	Funding 3½pc '99-04	57[illegible]	–[illegible]	6.09	9.10
97[illegible]	90[illegible]	Conversion 9½pc 2004	94[illegible]	–[illegible]	10.06	1.267
97¼	90[illegible]	Conversion 9½pc 2005	94[illegible]	–[illegible]	10.05	10.23
[illegible]						

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS

1991 High	1991 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
102	95⅞	African Dv Bk 11¼Ln 2010	99[illegible]	–[illegible]	11.18	11.18
97[illegible]	91[illegible]	Asian Dev Bk 10¼pcLn2009	95[illegible]	–[illegible]	10.76	10.85
112[illegible]	105[illegible]	Inter-Am Dev Bk 12½pc 2003	109[illegible]	–[illegible]	11.39	10.99
92[illegible]	86[illegible]	Do. 9¼pcLn 2015	90[illegible]	–[illegible]	10.81	10.91
121	101	Utd. Mexican States 16½pc 2008	121	.....	13.64	13.34

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

Continued on next page

APPOINTMENTS

Managing director of Minet

■ MINET HOLDINGS, part of The St Paul Insurance Group, Minnesota, has appointed Mr Peter Christie as group managing director and chief operating officer from June 1 based in London. He is currently a group deputy chairman and responsible for the group's interests in North America.

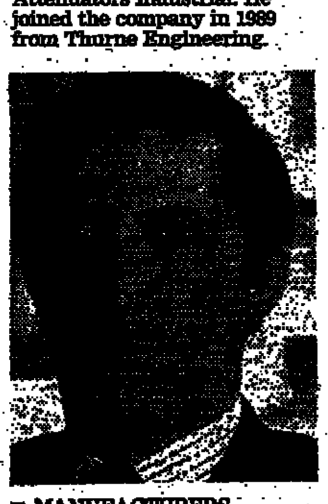
■ Mr Richard Strong has been appointed a non-executive director of the H&T WALKER group. He was chief executive of the Strong & Fisher group.

■ POLYPIPE has made Mr Brian Jones managing director of Oasis Leisure Products, manufacturer of plastic garden furniture and patio sets. He was previously managing director of Hartman UK. Polypipe acquired Oasis last November.

■ Mr Nicholas Butt and Mr Nick Dillon have been appointed directors of ROBERT FLEMING & CO.

■ Mr Bob Jones has been appointed non-executive chairman of PC COMMUNICATIONS following its management buy-out from Alphameric. He will also represent 3i, which financed the buy-out.

■ THE SALEX GROUP, Colchester, has promoted Mr John Warwick to the board. He is sales director of subsidiaries Sound Attenuators, and Sound Attenuators Industrial. He joined the company in 1989 from Thurne Engineering.



■ MANUFACTURERS HANOVER has formed a European securitisation and securities finance department, which will be headed by Mr Andrew Dobson *(pictured)*, managing director in London. Joining the department for securitisation operations are Mr Stephen Oxenbridge, vice president and previous head of the international asset-backed securities division at First National Bank of Chicago, London; Mr Richard Senior, vice president; and Mr Andrew Gardner, investment banking officer. For private placements Mr Paul Varotsis will be joining the unit in London from Swiss Bank Corporation in New York, to orchestrate European borrower access to US investors via Manufacturers Hanover's New York private placements team. Ms Avril Hammill will continue to play a similar role in London for access to Japanese investors in Tokyo. Ms Susan Moore will as before cover Japanese corporate and leasing company relationships in Europe.

■ THE PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY has made the following changes. Mr Alan Hatchett, responsible for the group's port interests, retires from the main board on September 30. He will continue as chairman of P&O Pension Funds Investments. Mr Alec Black will relinquish the chairmanship of P&O Bulk Shipping on May 31. Main board director Mr Tim Harris will succeed him, and will continue in his existing appointments. Mr Karl Timmermann, managing director of P&O Bulk Shipping, will additionally become deputy chairman. Mr Black will retain responsibility for the group's safety and environmental policies, P&O's Pakistan interests, Three Quays Marine Services, and P&O Group Insurance. He retires from the main board on December 31.

■ INTEGRAL TECHNOLOGY, Alton, has appointed Dr Bernard Harvey as managing director. He was technical director at Third Wave Systems, and the move follows the recent acquisition of a further 39% of the equity of Integral Technology by Third Wave Network, bringing the total holding to 94%.

■ LYNX HOLDINGS has appointed Mr Richard Last as group managing director. He was finance director of Quandrant Group.

■ Mr Tony Evans, formerly with Fassnidge Son & Norris, has joined the JOHN LELLIOTT GROUP as managing director of Riverside Mouldings, a fibrous plaster specialist based in Greenwich.

Nissan Motor (GB) senior posts

■ Despite a court battle with Nissan UK over vehicle distribution rights in the UK, NISSAN MOTOR (GB) continues to make appointments. Mr Andrew Green, formerly purchasing director at Rover, becomes marketing director. Mr Anthony Eastwood, formerly manager of employee relations planning at Jaguar, is to become personnel manager. Mr Jon Beveridge, dealer franchising manager at Ford of Europe, is to become dealer appointments manager. Two executives from Nissan's Sunderland assembly plant, Mr Joel Motte, sales manager, and Mr Jon Hill, quality assurance manager, have been appointed Midlands regional sales manager and product support manager respectively.

LONDON SHARE SERVICE

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AMERICANS

1991 High	Low	Stock	Price	+ or -	Div Gross	C'vr	Y'ld Gr's
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

1991 High	Low	Stock	Price	+ or -	Div Gross	C'vr	Y'ld Gr's
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

1991 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BEERS, WINES & SPIRITS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING, TIMBER, ROADS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING, TIMBER, ROADS — Contd

1991 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHEMICALS, PLASTICS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DRAPERY AND STORES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DRAPERY AND STORES — Contd

1991 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICALS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICITY

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING

1991 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOOD, GROCERIES, ETC

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HOTELS AND CATERERS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.) — Contd

1991 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.) — Contd.

1991 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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LONDON SHARE SERVICE

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LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRANSPORT—Contd

INVESTMENT TRUST

INVESTMENT TRUST—Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

23	11	Kalgoorlie Gold Ltd 5p	16	..	-	-	-
44	36	Plateau Mining 20p	36	..	-	-	-
573	404	RTZ 10p	523	-3	19.5	2.2	5.0
10	3½	Thorco Res Inc	6½	-2½	-	-	-
10	6	Vizcaya Hldgs 5p	6	..	-	-	-
133	120	Young Group 10p	127	..	5.2	♦	5.5

Tins

Miscellaneous

NOTES

Stock Exchange dealing classifications are indicated to the right of security names. α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ◆ Same interim, reduced final and/or reduced earnings indicated
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☒ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ∎ No par value

B.Fr. Belgian Francs. Fr. French Francs ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	650	....
Finlay Pkg 5p	27	-2
Holt (Jos) 25p	1820	-5
Helton Hldgs	43	....
IRG	145	....
United Drug	160	....

IRISH

Cap 8½% Ln 1991	£99¼	....
9pc Cap Ln 1996	£98¼	-¼
Fin. 13% 97/02	£114¼	....
Arnotts	160¼xd	....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	60
BOC Grp	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons.	45
Coram Union	44
Courtaulds	32
Eurotunnel	50
FKI	6
FNFC	20
Gen Accident	48
GEC	17
Glaxo	80
Grand Met.	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd.	39
ICI	80
Ladbroke	22
Legal & Gen.	36
Lex Service	20
Lloyds Bank	38
Lucas Inds.	13
Marks & Spencer	21
Midland Bk	18
Nat West Bk	27
P & O Dfd	51
Racal Elect.	10
RHM	28
Rank Org Ord	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	40

Property

Brit Land.	30
Control Secs	3
Land Securities	45
MEPC	48
Mountleigh	8½

Oils

Aviva Petlm.	3
Brit Petroleum	28
Burmah Castrol	49
Conroy Petlm.	10
Gaelic Res.	1
Premier	6
Shell	41
Tuskar Res.	2
Ultramar.	30

Mines

Lonrho	21
RTZ	48

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stewart Ivory Unit Tst Mgrs Ltd (1500)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American ♥	5	291.7	291.7	311.4	+0.2	1.38
(Accum Units) ♥	5	341.2	341.2	364.3	+2.6	1.38
British ♣	5	791.9	791.9	837.8	+0.8	5.74
(Accum Units) ♣	5	1267.8	1267.8	1341.3	+1.3	5.74
European ♣	5	329.7	329.7	351.9	+1.0	1.51
(Accum Units) ♣	5	353.4	353.4	377.2	+1.1	1.51
Japan ♣	5	118.9	118.9	126.5	+1.0	-
(Accum Units) ♣	5	119.8	119.8	127.5	+1.0	-
New Pacific ♣	5	169.9	169.9	180.5	+0.9	2.10
(Accum Units) ♣	5	171.2	171.2	181.9	+0.9	2.10
PEP	5	131.9	134.4	142.3	-0.3	3.54
Mngd Equity	5	119.0	120.7	127.8	+0.4	3.65
Mngd Equity Acc	5	123.1	124.9	132.2	+0.4	3.65
Mngd Cash ♣	5	96.59	96.59	101.4	+0.1	11.96
(Accum Units)	5	111.9	111.9	117.5	+0.1	11.96
Mngd Fixed Int Acc	5	118.4	118.4	125.3	....	6.67
Majority Stlg	1	100.52	100.58	101.51	+0.02	11.54
Majority Stlg Acc	1	105.33	105.33	104.35	+0.02	11.54
Stanbrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
International May 15	0	49.98	49.98	50.98	....	8.43
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
Sun Alliance House, Horsham 0403 56293						
Equity	6	504.2	592.4	635.6	-0.4	3.47
North America	6	75.71	75.71	80.97	+0.96	1.09
Far East	6	94.74	95.95	102.6	+0.6	0.82
W'wide Bond	6	45.81	45.81xd	48.71	+0.24	6.12
W'wide Financial	6	34.46	34.46	36.86	+0.21	3.43
W'wide Technology	6	40.98	40.98	43.83	+0.23	0.96
European	6	67.03	67.03	71.62	+0.48	1.27
Equity Income	6	70.12	71.08	76.02	+1.07	5.34
Portfolio	6	57.65	57.65xd	61.66	+0.31	3.02
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke, Hants 0800 525725						
American Growth	6	25.08	25.08	26.83	+0.20	0.62
Managed Assets	6	102.18	102.90	109.95	-0.19	4.95
UK Income	6	33.70	34.26	36.65	-0.16	4.91
UK Growth	6	32.63	33.08	35.39	-0.13	3.62
Worldwide Growth	6	23.82	23.82xd	25.48	+0.21	1.31
Sun Life Trust Mngmt Ltd (1200)H						
101, Cannon St, London EC4N 5AD						
Admin & Enq: 071-606 4044 Dealing: 071-606 6010						
Master Portfolio	5¼	34.82	34.82xd	37.24	+0.23	1.90
Amer Growth Acc	5¼	43.38	43.38	46.36	+0.42	0.71
Cap Protector Acc	5¼	33.96	33.96xd	36.32	-0.05	4.68
Cap Protector Inc	5¼	30.50	30.50xd	32.62	-0.05	4.68

	Bid Price	Offer Price	+ or -	Yield Gross
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American May 22	150.0	154.1	-4.3	1.42
Managed May 22	140.8	146.1	-0.8	3.94
Japan May 23	118.5	121.8	-1.7	0.08
Sm Jap Cos May 17	570.9	586.6	-1.8	0.09
Fidelity Investment Services Ltd				
Mngd Pens P'folio	129.0	133.5	+0.20	3.41
Robert Fleming Asset Mngmt Ltd				
Am Exempt	£455.77	462.55	+4.17	1.48
Gen Exempt	£128.92	131.84	-0.52	3.80
Jap Exempt	£482.29	491.80	-0.94	0.91
Pacific Exempt	£99.030	101.88	+0.19	2.38
Contl Euro Exempt	£97.36	99.52	+0.41	2.23
Indexed Exempt May 23	£125.27	128.38	+0.05	3.07
Amer Indxd Expt May 23	£100.84	101.86	+3.26	2.94
Japan Indxd Ext May 23	£65.95	67.28	-0.34	0.63
Euro Indxd Expt May 23	£96.12	98.06	+0.91	2.86
U'tsts Indxd Ext May 23	£98.31	100.49	+1.52	2.22
Funds in Court*				
Capital May 1	505.22	506.92xd	....	2.42
Gross May 1	190.86	192.40	....	9.42
High Yield May 1	297.94	300.35	....	6.88
* Restricted to monies under Court control				
Henderson Unit Trust Management Ltd				
Pensions Mngd	51.64	52.75xd	+0.07	3.79
INVESCO MIM Management Ltd				
Exempt Funds				
Intl Mngd P'Folio	1191.0	1287.0	....	-
Mngd Pens (Acc)	68.0	72.5	....	-
Lazard Brothers & Co. Ltd				
Property Jan 3	£2360.0	2475.0	....	6.00
Inc Gth Prp Apr 16	£1325.0	1460.0	....	7.20
Lazard Investors Ltd ¤¤				
Exempt Funds				
Small Co's May 23	£3642.8	3817.1	....	4.37
European May 23	£537.2	542.9	....	2.22
American May 23	£342.2	343.8	....	2.09
Far Eastern May 23	£550.8	562.1	....	1.16
Australian May 23	£140.2	144.6	....	3.40
Midlands May 13	£43.6	45.4	....	3.28
Northumbria May 12	£140.1	148.4	....	2.98
North West May 12	£214.1	230.3	....	3.77

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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	Bid Price	Offer Price	+ or −	Yield Gross
N & P Life Assurance Ltd				
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348				
Life Managed Fd	104.8	110.3	+0.1	–
Pension Managed Fd	102.5	107.9	+0.3	–
Life Deposit Fd	106.8	112.5	----	–
Pension Deposit Fd	111.9	117.8	+0.1	–
National Financial Management Corp PLC				
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539				
Life Funds				
Managed Cautionary	108.4	119.2	-0.2	–
Managed Growth	134.8	148.4	+0.1	–
Managed Opportunity	136.4	150.5	+0.3	–
NFMC Target Financial	99.1	106.7	-0.3	–
Pension Funds				
Managed Cautionary	118.4	129.8	-0.2	–
Managed Growth	142.3	156.5	+0.1	–
Managed Opportunity	137	151	+0.3	–
NFMC Target Mngd Pen	1475.2	1603.5	+0.9	–
National Mutual Life				
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422				
Harvester Pension Funds				
Managed	159.6	168.1	----	–
UK Equity	163.1	171.7	----	–
Overseas Equity	133.8	140.9	----	–
Fixed Interest	143.5	151.1	----	–
Property	130.8	137.7	----	–
Index Linked	147.6	155.4	----	–
Deposit	155.8	164.1	----	–
With Profits (B)	128.0	134.8	----	–
National Provident Institution				
48 Gracechurch St, London EC3P 3HH 071-623 4200				
Managed	348.5	366.9	+0.4	–
UK Equity	437.8	460.9	+0.1	–
Overseas Eq	345.3	363.5	+0.7	–
Americas	278.2	292.9	+2.0	–
Far East	375.7	395.5	+1.1	–
Property	194.0	204.3	-0.1	–
Fixed Int.	256.5	270.0	-0.1	–
Indexed Gilt	154.9	163.1	+0.2	–
Deposit	180.9	190.5	+0.1	–
Pension Fund (Accum Units)				
Managed	492.2	518.2	+0.7	–
UK Equity	577.2	607.6	+0.4	–
Overseas Eq	572.8	603.0	+2.2	–
Americas	362.9	382.1	+3.0	–
Far East	621.1	653.8	+2.9	–
Property	244.8	257.7	----	–
Fixed Int.	314.7	331.3	-0.3	–
Indexed Gilt	170.4	179.4	+0.2	–
Deposit	253.1	266.5	+0.1	–
NPI Pensions Management Ltd				
Managed Fund	1092.2	1111.7	----	–

Prices May 1 Next dealing June 3

	Bid Price	Offer Price	+ or −	Yield Gross
Norwich Union Asset Management Ltd				
PO Box 140, Norwich NR3 1PP 0603 622200				
NUAM Funds				
Managed Fund	71.3	75.0	+0.1	–
Stock Market Mngd Fund	70.1	73.8	+0.2	–
Equity Fund	77.7	81.8	----	–
International Fund	63.6	66.9	+0.4	–
European Fund	64.6	68.0	+0.1	–
North American Fund	71.9	75.7	+0.7	–
Pacific Fund	69.5	73.2	+0.5	–
Property Fund	82.6	87.0	+0.1	–
Fixed Interest Fund	57.8	60.8	-0.2	–
Index Linked Sec Fund	62.2	65.4	----	–
Deposit Fund	69.4	73.1	----	–
NUAM Retirement Plans				
Mixed Fund	78.0	82.1	----	–
UK Ordinary Share Fd	90.2	95.0	-0.1	–

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

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U.S. Treasury Securities Fund Ltd

Yamaichi Capital Mangmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

JERSEY (SIB RECOGNISED)

Hill Samuel Fund Mgrs—Contd.

INVESCO MIM International (Jersey) Ltd

JERSEY (REGULATED)

TSB Trust Funds (CI)

Target Internat. Management (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Henderson Management SA (u)

21-25 Allee Scheffer L-2520 Luxembourg

LUXEMBOURG (REGULATED)

CB Fund International (u)

CM Investment Serial Funds

Capel-Cure Myers Intnl Fd Sicav (u)

US Pacific Stock Fund (u)

Unibank SA, Frontrunner I (u)

Unico Financial Services SA Lux

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

GT Management Plc

NM Financial Mngt Intl Ltd

The New Zealand Fund

Newport International Management

Nomura Warrant Fund 1990 Ltd

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling firm as dollar falls

PROFIT-TAKING hit the dollar *yesterday, pushing the currency* lower at the London close. A rise of 2.9 per cent in April US durable goods orders was the first gain in the data so far this year. It followed a revised drop of 4.5 per cent in March, and was stronger than market forecasts of a 2.1 per cent increase.

This provided the dollar with temporary support, but it fell back after failing to decisively break through DM1.7300. This led to profit-taking amid speculation that the Federal Reserve might be about to ease its monetary stance by cutting the target rate for Federal funds on the New York money market.

The Fed quashed any such ideas by draining liquidity, via overnight sale and purchase agreements, as Fed funds traded at 5⅝ per cent. This was below the assumed target level of 5¾ per cent, but in general analysts doubted that the Fed needed to intervene. Dealers suggested that the action might have been a signal to the market that credit policy has not been changed.

Mr Brian Fabbri, chief economist at Midland Montagu US, told a New York meeting of the British-American Chamber of Commerce that the target rate for Fed funds will probably fall to 5 per cent by the year end, but that this is unlikely to produce a quick expansion in the economy. *He added that the* recession "seems to have hit bottom and lost some of its intensity but (the economy) certainly hasn't turned up yet. Recovery is a good deal away."

A survey among members of the US National Association of Business Economists pointed towards an end to the recession in the second or third quarter, but 93 per cent of those surveyed said they expect the recovery to be slower than normal.

At the London close the dollar had fallen to DM1.7140 from DM1.7215; to Y137.70 from Y138.00; to SFr1.4560 from SFr1.4595; and to FFr5.8225 from FFr5.8450. On Bank of England figures the dollar's index declined to 66.0 from 66.1.

Currencies in the European exchange rate mechanism traded steadily. Sterling remained the second strongest member, ahead of the Italian lira, *but still well below the top* placed Spanish peseta. The Bank of Spain denied it has any plans to cut the peseta's ERM band to 2¼ from 6 per cent.

Sterling's strength encouraged speculation that the Bank of England may allow a cut of ½ point in UK bank base rates today.

UK trade figures for April had little impact on the pound. A trade deficit of £839m and a current account shortfall of £339m, after taking account of a surplus of £500m on invisible earnings, was in line with expectations.

In London sterling rose 85 points to $1.7350. It also climbed to DM2.9750 from DM2.9725; to FFr10.1025 from FFr10.0925; to SFr2.5250 from SFr2.5200; and to Y239.00 from Y238.25. The pound's index gained 0.1 to 92.0.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 23	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	127.530	-4.57	6.16	79
Sterling	0.696904	0.692825	-0.59	1.91	10
Italian Lira	1538.24	1530.48	-0.50	1.83	32
Belgian Franc	42.4032	42.3452	-0.14	1.46	14
Dutch Guilder	2.31643	2.31913	0.12	1.20	2
D-Mark	2.05586	2.05859	0.13	1.18	1
Irish Punt	0.767417	0.768688	0.17	1.15	-1
Danish Krone	7.84195	7.87517	0.42	0.89	-12
French Franc	6.89509	[illegible]	[illegible]	[illegible]	[illegible]

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

£ IN NEW YORK

May 23	Latest	Previous Close
£ Spot	1.7365-1.7375	1.7278-1.7288
1 month	0.85-0.83pm	0.87-0.86pm
3 months	2.31-2.28pm	2.41-2.37pm
12 months	6.85-6.75pm	6.96-6.88pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

POUND SPOT - FORWARD AGAINST THE POUND

May 23	Day's spread	Close
US	1.7165 - 1.7385	1.7345 - 1.7355
Canada	1.9790 - 2.0025	1.9965 - 1.9975
Netherlands	3.3435 - 3.3550	3.3450 - 3.3550
Belgium	60.95 - 61.55	61.45 - 61.55

EXCHANGE CROSS RATES

May 23	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.735	2.975	239.0	10.103	2.525	3.350	2211	1.997	61.50	1.448
$	0.576	1	1.715	137.8	5.823	1.455	1.931	1274	1.151	35.45	0.835
DM	0.336	0.583	1	80.34	3.396	0.849	1.126	743.2	0.671	20.67	0.487
YEN	4.184	7.259	12.45	1000.	42.27	10.56	14.02	9251	8.356	257.3	6.059
F Fr.	0.990	1.717	2.945	236.6	10.	2.499	3.316	2188	1.977	60.87	1.433
S Fr.	0.396	0.687	1.178	94.65	4.001	1	1.327	875.6	0.791	24.36	0.573
H Fl.	0.299	0.518	0.888	71.34	3.016	0.754	1	660.0	0.596	18.36	0.432
Lira	0.452	0.785	1.346	108.1	4.569	1.142	1.515	1000.	0.903	27.82	0.655
C$	0.501	0.869	1.490	119.7	5.059	1.264	1.678	1107	1	30.80	0.725
B Fr.	1.626	2.821	4.837	388.6	16.43	4.106	5.447	3595	3.247	100.	2.354
ECU	0.691	1.198	2.055	165.1	6.977	1.744	2.314	1527	1.379	42.47	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

MONEY MARKETS

An optimistic mood

THERE WAS a softer tone to interest rates in London yesterday, with the market hoping the Bank of England will endorse a cut in bank base rates today, now that two 12 per cent borrowing facilities, for seven and 14 days, with the central bank have expired.

Recent comments by the UK prime minister and the chancellor of the exchequer have led to speculation about an early rate cut, but there was little obvious encouragement from the Bank of England's action on the money market yesterday.

UK clearing bank base lending rate 12 per cent from April 12, 1991

The authorities provided most assistance late in the day, to absorb a very large credit shortage. The amount of help supplied was also less than the underlying shortage, according to official figures.

Yesterday's UK trade figures for April were in the general region of most forecasts and had no impact on the market.

Three-month sterling interbank fell to 11$\frac{7}{16}$-11$\frac{5}{16}$ from 11$\frac{9}{16}$-11$\frac{7}{16}$ per cent, and 12-month money eased to 11$\frac{1}{16}$-10$\frac{15}{16}$ from 11⅛-11 per cent.

Prices of short sterling futures on Liffe reacted favourably to hopes of lower cash rates. June delivery opened higher at 88.78 and rose to a peak of 88.82 before closing at 88.81 compared with 88.76 previously.

Day-to-day credit was in very short supply on the money market. The Bank of England initially forecast a shortage of £1,350m, but revised this to £1,400m in the afternoon. Total assistance of £1,259m was provided.

An early round of help was offered, but at that time the authorities bought only £8m bills, by way of £5m bank bills in band 1 at 11⅞ per cent and £3m bank bills in band 2 at 11$\frac{13}{16}$ per cent. Before lunch another £66m bills were purchased, via £5m bank bills in band 1 at 11⅞ per cent; £16m Treasury bills in band 2 at 11$\frac{13}{16}$ per cent and £45m bank bills in band 2 at 11$\frac{13}{16}$ per cent.

In the afternoon £780m bills were bought, through £101m Treasury bills in band 1 at 11⅞ per cent; £649m bank bills in band 1 at 11⅞ per cent; £5m Treasury bills in band 2 at 11$\frac{13}{16}$ per cent; and £25m bank bills in band 2 at 11$\frac{13}{16}$ per cent. Late assistance of around £405m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £584m, with exchequer transactions absorbing £710m and a rise in the note circulation £145m. These outweighed bank balances above target of £70m.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BASE LENDING RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,551 Set by GRIFFIN

ACROSS

1 Fights take time; they're usually boring (8)
5 A Scottish inventor ought to return capital (6)
10 Joke about instrument of torture (5)
11 Even golf clubs use these to make things smoother (9)
12 Sam's back in goal for cavorting in bloomers! (9)
13 Thought leading lady perfect (5)
14 Lots different to Elizabeth, a stable person (6)
15 Wonder if vehicle reversed long way round (7)
18 When in bed lord heard applause (7)
20 After last night is introducing cunning painter (6)
22 Times one holding posh cat (5)
24 Recall the Queen turning to prayer (9)
25 Grows in folds (9)
26 Manage to return to Holyhead for a time (5)
27 Artificial aster developed by Zulu leader (6)
28 String on pole round which slides wild sloth (8)

DOWN

1 Change into suit (6)
2 In Alcoholics Anonymous a single drunk's painlessness (9)
3 Thanks me – can't move without specific information (15)
4 First person in golf club is taller (7)
6 Turn tree oil into liquid TNT (15)
7 Solitary porter carries on (5)
8 Acquitted sailors loved being free (8)
9 Poor actor with very big name climbing into cab (6)
16 Fool, with hesitation, gets stuck into cabbage dish (9)
17 Facing counter, accepts it (8)
19 Through US mum getting the bird (6)
20 Charged Bill a hundred second-hand (7)
21 Longs to see spiteful women topless! (6)
23 Steals chips (5)

Solution to Puzzle No.7,550

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	May 22	May 21	May 20	May 17	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
‡Industrials	2910.33	2906.08	2892.22	2886.63	3004.46 (17/4)	2470.30 (9/1)	3004.46 (17/4/91)	41.22 (2/7/32)
Home Bonds	94.78	94.75	94.70	94.69	95.06 (9/5)	91.30 (16/1)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	1138.75	1129.06	1129.23	1143.34	1202.57 (9/5)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	210.89	210.89	210.45	210.95	220.89 (16/4)	199.64 (16/1)	236.23 (2/1/90)	10.50 (8/4/32)

‡Day's High 2930.01 (2931.80) Low 2881.93 (2872.76)

STANDARD AND POOR'S	May 22	May 21	May 20	May 17	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	376.19	375.35	372.28	372.39	390.45 (17/4)	311.49 (9/1)	390.45 (17/4/91)	4.40 (1/6/32)
Industrials	448.31	447.28	443.52	443.33	463.23 (18/4)	364.90 (9/1)	463.23 (18/4/91)	3.62 (21/6/32)
Financial	29.57	29.34	29.06	29.06	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	205.94	205.60	204.07	204.15	213.21 (17/4)	170.97 (9/1)	213.21 (17/4/91)	4.46 (25/4/42)
Amex Mkt. Value	359.88	359.13	358.16	358.01	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	487.29	483.60	480.10	481.38	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	May 10	May 3	Apr.26	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.44	3.47	3.93

	May 15	May 8	May 1	year ago (approx.)
S & P Industrial div. yield	2.86	2.78	2.78	2.98
S & P Indl. P/E ratio	18.97	18.53	18.57	15.49

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
Savin Bus	4,133,200	⅛	- 1/16
Blockbuster	2,247,100	8¼	- ½
IBM	2,242,000	104½	+ 3
Comp Assoc	2,214,600	8⅝	+ ⅞
USX-Marathon	2,101,400	25¼	+ ½
Saatchi Co	2,090,800	1	- ⅛
Pan Am Cp	2,015,900	11/16	- 1/16
Texas UT	2,013,100	36¼	—
Compaq Com	1,982,800	37¼	+ 1
Philip Morris	1,851,800	66⅞	+ 1

TRADING ACTIVITY

† Volume Millions	May 22	May 21	May 20
New York	159.310	186.860	109.510
Amex	9,947	9.614	7.809
NASDAQ	(u)	166.461	125.392
Issues Traded	2,055	2,061	2,047
Rises	762	985	694
Falls	785	582	837
Unchanged	508	494	516
New Highs	47	62	39
New Lows	14	16	9

CANADA

TORONTO	May 22	May 21	May 20	May 17	1991 HIGH	1991 LOW
Metals & Minerals	2984.31	2991.77	(c)	2997.42	3284.18 (5/3)	2632.06 (9/1)
Composite	3448.05	3447.63	(c)	3449.74	3571.53 (6/3)	3161.95 (15/1)
MONTREAL Portfolio	1824.37	1825.15	(c)	1825.53	1888.19 (5/3)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

THAILAND				
Bangkok SET (30/4/75)	800.73	792.08	804.83	813
WORLD				
M.S. Capital Intl.(1/1/70) (§)	508.0*	506.7	506.7	[illegible]

**Saturday May 18: Taiwan Weighted Price: 5982.[illegible]

& Subject to official recalculation.

Base values of all indices are 100 except: BEL20, HEX General, ISEQ [illegible] JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – [illegible]

TOKYO - Most Active Stocks

Thursday 23 May 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nisshin Steel	27.4m	781	+40	Fujikura	8.8m	1,100	+30
Hitachi Zosen	24.1m	675	+30	Kawasaki Heavy	8.5m	621	+11
Japan Steel	23.3m	617	+49	Fuji Electric	7.1m	921	+34
M.bishi Material	11.5m	745	+49	Morinaga Milk	5.4m	751	+22
Mitsubishi Heavy	9.1m	757	+5	Akai Electric	4.2m	1,150	+50

3:15 pm prices May 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16 5/8	9 1/4	AAR Corp	0.48	0.04	12	173	13	13	13	
18 5/8	14 1/2	A L Labs A	0.24	0.01	18	386	16 5/8	16 5/8	16 5/8	
54 1/4	40 3/8	AMP Inc	1.44	0.03	18	702	49 1/4	48 3/4	48 3/4	-5/8
65 1/2	44 1/4	AMR				163273	62	61 1/4	61 3/4	+1/2
2 3/8	1 1/8	ARX			2	39	1 7/8	1 7/8	1 7/8	
48 1/4	41 1/2	ASA x	3.60	0.08	13	279	45 1/4	44 3/4	45	-1/8
54	39 1/4	Abbott Lab	1.00	0.02	22	2604	52 5/8	51 7/8	52 1/4	-1/8
13 3/8	9 7/8	Abitibi Pr	0.60	0.04	26	5	13 1/2	13 3/8	13 1/2	
11 1/2	10 3/8	ACM Gvt In				601	11 3/8	11 1/4	11 3/8	
9 3/8	8 3/8	ACM GvOpp	1.01	0.11		65	9 3/8	9 1/4	9 3/8	+1/8
9 1/4	8 1/4	ACM Gvt Sp	1.01	0.11		386	9 1/8	9	9	
11	9 7/8	ACM Gvt Se				641	10 7/8	10 3/4	10 7/8	+1/8
8 1/4	7 3/8	ACM Man	1.01	0.12		114	8 1/8	8	8 1/8	+1/8
12 7/8	11 3/8	ACM Managd	1.50	0.12		121	12 5/8	12 1/2	12 1/2	-1/8
7 1/4	4 3/4	Acme Cleve	0.40	0.07	14	112	6 1/8	6	6	-1/8
6	3 1/2	Acme Elect			37	44	3 7/8	3 3/4	3 3/4	-1/8
40	22 1/4	Acuson			25	224	33 7/8	33 1/2	33 5/8	-1/8
17 7/8	14 1/4	Adams Expr x	0.48	0.03	0	176	17 3/4	17 5/8	17 3/4	
20 1/8	18 7/8	Adobe 12Pf	2.40	0.12		173	19 7/8	19 1/2	19 5/8	-1/8
9 1/4	7	Adobe Res			20	115	7 7/8	7 3/4	7 7/8	
36 3/4	18	Ad Micro				355	u36	35	35 1/2	+1/8
14 3/4	4 5/8	Ad Micro P	3.00	0.23	14	1500	13 3/8	12 3/4	12 7/8	-1/8
5 1/4	2 1/8	Advest Grp	0.16	0.04	5	12	4 1/4	4 1/8	4 1/8	
[illegible]										

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	20⅞	S Acita Rr	2.08	0.08	78	23	25⅝	25¼	25⅜	
15¾	11½	SCOR US Cp	0.24	0.02	6	100	14	14	13⅞	
37	29¼	SPS Techno	1.20	0.04	17	3	32¼	32¼	32½	
2⅛	⅞	SeatchI&S				02118	1	[illegible]	1	
12¾	11	Sabine Rlt	1.51	0.12	7	94	12⅝	12⅝	12⅝	+⅛
9⅞	5⅞	Safecard	0.15	0.02	8	358	8⅞	8⅝	8¾	
12⅞	8¾	Safeg'd Sc			3	26	11⅞	11½	11½	-½
37	25	SafetyKln	0.32	0.01	30	689	31⅝	31⅛	31⅝	+⅝
21⅝	11⅞	Safeway				161145	18⅝	18⅛	18½	+⅛
4⅞	2⅞	SafewayWS				74	4⅛	4	4	
35⅞	26⅞	StJoePaper	0.20	0.01	32	72	33¼	33¼	33½	+½
32	26⅞	StJoeL&P	1.88	0.06	11	22	29½	29¼	29¼	
4¼	1½	Salant Crp			0	30	2⅞	2⅞	2¼	-⅛
55⅛	40⅞	Sallie Mae	0.80	0.01	17	1732	54½	54	54⅛	
13¼	10⅞	Salomon Br	0.60	0.05		410	12⅞	12⅛	12⅞	
34⅛	22¼	Salomoninc	0.64	0.02		71464	32⅜	31⅞	32⅛	
45¾	37⅝	SanDgo G&E	2.70	0.07	10	434	37⅞	37⅞	37¾	
4⅞	2¼	SantaFeEDu	1.32	0.39	12	35	3⅜	3⅛	3⅛	+⅛
18⅞	13	SantaFeEPs	0.16	0.01	47	5488	14⅝	14⅛	14¼	-⅛
30⅛	25	SantaFePac	2.60	0.09	9	29	29⅛	28⅞	28⅞	-⅛
8⅞	5⅛	SantaFeSth				242809	8⅞	8⅛	8¾	-⅛
41¾	29⅝	Sara Lee	0.94	0.02	18	3631	38⅜	37⅞	38⅞	+⅛
¼	⅛	Savin Corp				26387	0.15	⅛	⅛	
7⅞	1⅞	Savin 0.80	0.58	0.13		7	4⅝	4½	4½	
38	33½	Scana Corp	2.62	0.07	8	62	37⅞	37⅝	37½	+⅛
40	36	Seecorp	2.64	0.07	10	2873	39½	38⅝	38¾	-⅛

[illegible]

- T -

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
43	34½	TRW Inc	[illegible]							
1½	⅞	TacomaB[illegible]	[illegible]							
24½	18⅞	Taiwan F[illegible]	[illegible]							
8¼	4½	Talleylnd	[illegible]							
11⅞	7	Talley Pf	[illegible]							
69½	36⅝	Tambran[illegible]	[illegible]							
17⅞	9¼	Tandem	[illegible]							
39½	25	Tandy Co	[illegible]							

[illegible]

- X - Y - Z -

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
61	43¼	Xerox4.125				z100	u51	61	50½	-½
21¾	14¼	Xtra 1.94 x				109	20⅝	20½	20½	+⅛
24⅞	14¼	Xtra Corp x	0.72	0.03	12	58	22½	21⅝	22¼	+½
23¼	21¾	Yankee Egy	1.60	0.07	12	54	23	22⅞	23	
1½	⅞	Zapata			0	29	1⅛	1	1⅛	
9⅞	6⅛	ZenithElec			2	308	6¼	6⅝	6¾	+⅛
18¼	12	Zenith Nat	1.00	0.06	69	114	16⅞	16⅝	16⅞	+⅛
8	4½	Zenix Inc x	0.87	0.15		11	5⅞	5⅞	5⅞	-⅛
15⅛	10⅞	Zero Corp x	0.72	0.05	15	380	14⅝	14¼	14⅛	-⅛
41⅛	29½	Zurn Ind	0.88	0.02	14	348	34⅞	34½	34⅝	
13½	10¼	Zweig Fund				337	12⅞	12¼	12⅞	
10	8½	Zweig Tod	1.08	0.11		605	9⅞	9¼	9⅞	+⅛

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:00 pm prices May 23

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Fr aLoan		11	4220	14½	14⅛	14⅛	+⅛
FabIndust	1.08		139	u9⅞	9⅞	9⅞	+⅛
Giant FdA	0.86	14	309	29⅛	28¾	28⅞	
Giant Yel		0	3	3⅞	3⅞	3⅞	
Glatfltr	1.20	13	36	53⅞	53⅞	53⅞	-⅛
Goldfield		31	64	u⅝	⅛	⅛	-⅛
Greenman		2	18	5⅞	5½	5⅞	
Greiner	0.20	19	64	16½	16⅛	16½	+⅛
GRI Corp		13	15	3⅞	3⅛	3⅞	
Gulf Cda	0.40	10	28	7⅛	7⅝	7⅛	
Hasbro	0.24	16	3443	29⅝	28½	28⅞	
NSR Expl		35	651	2¼	2⅛	2⅛	
Nabors		17	428	6⅞	6¼	6⅛	
Nat Pant		1	44	4⅝	4½	4⅝	+⅛
New Line		10	121	11⅛	11	11⅛	
NY TimesA	0.56	31	693	22⅝	22	22⅛	-½
NthCanOil	0.20	26	254	13⅛	13⅛	13⅛	
Numac O&G		44	z100	5	5	4⅞	
NV Ryan		0	15	1⅛	1⅛	1⅛	+⅛
Odetics A		18	13	7⅛	7⅛	7⅛	-⅛
Oilgear x	0.24	29	97	17	16⅞	16⅞	-⅛
OMI Corp	0.10	11	12	6½	6½	6½	
Pall Corp	0.44	39	2092	36½	35⅝	35½	+⅛
Pegasus G		7	405	11¼	11⅛	11⅛	
Perini		10	25	14½	14¼	14¼	-½
Pet H&P x	0.31	12	6	10¼	10¼	10¼	
Phil LD	0.18	9	375	u21⅝	21⅛	21⅝	+⅛

[illegible]

NASDAQ NATIONAL MARKET

3:00 pm prices May 23

[illegible]

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		31	525	22	21½	22	
XL Data		14	514	7	6¼	7	+½
Xoma Corp		14	1950	28	27¼	27¼	-⅛
Yellow Fr	0.94	14	1709	30¼	29⅞	29⅞	-⅛
York Rsch		20	543	20¾	20¼	20¼	
ZionsUtah	1.44	9	z100	41⅞	41¾	42⅞	

AMERICA

Economic figures prove mixed blessing for Dow

Wall Street

THE STOCK market remained stuck in a narrow trading range yesterday morning, but then share prices began to fall in the wake of some ambiguous economic news, writes Patrick Harverson in New York.

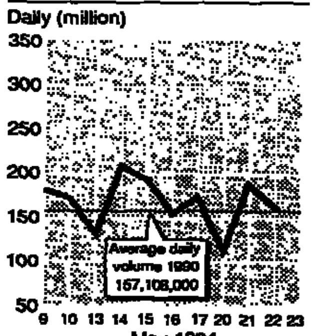
At 1.30 pm the Dow Jones Industrial Average was down 21.02 at 2,889.31. The more broadly based Standard & Poor's 500 was also a touch lower, down 1.06 at 375.13 at 1 pm, while the Nasdaq composite of over-the-counter stocks held on to its gains and was up 1.73 at 489.02. Turnover on the New York SE was 109m shares, and declining issues outpaced advancing issues by 705 to 660.

The day's economic figures were a mixed blessing for the market. A 2.9 per cent increase in April durable goods orders was seen as mildly encouraging, especially as it included signs of strength in the manufacturing sector. However, nondefence orders fell by 10.3 per cent during the month, an indication that the recession is by no means over.

With such conflicting evidence on the state of the economy, analysts said that investors were likely to keep their heads down for the immediate future.

Among individual issues, UAL shares rose $2¼ to $145¾ after the airline said that system-wide capacity – the number of aircraft, hubs and routes it runs – would reach an all-time high this August. The stock was further boosted by an upgrade from Bear Stearns, the broking house, which raised its rating from a "buy" to a "strong buy".

NYSE volume



Other stocks in the airline sector were also higher on a feeling that the worst of the slump for domestic carriers is over, with USAir up $¼ at $16¾, Delta $⅛ at $70⅛, and AMR, parent company of American Airlines, $⅞ at $61⅞.

Orion Pictures, which declined earlier in the week on news of fourth quarter losses and a debt restructuring programme, plummeted $1¼ to $4¼ yesterday on reports that the film studio's finances are in worse shape than originally disclosed.

Digital Equipment, which has won a Navy contract worth up to $140m, edged $¼ higher to $63⅞.

Centocor climbed $1¾ to $69 in brisk trading after the company's Centoxin drug was approved by authorities in the UK and Germany, and the pharmaceuticals analyst at Kidder Peabody reiterated his buy recommendation.

Canada

TORONTO stocks fell from their session highs by midday. The composite index was up 0.9 at 3,448.9. Declines led advances by 205 to 191 on volume of 12.9m shares.

Laidlaw bounced up C$1 after sliding C$¾ on Wednesday on continuing reports of contamination problems at the company's Mercier, Quebec, hazardous waste site. Laidlaw said late on Wednesday that clean-up costs for buried wastes would not be material.

Deprenyl Research, the drug company, continued to climb, rising C$¾ to a 12-month high of C$20. Xerox Canada class B shares gained C$⅞ to C$22 after Xerox Corp said it had signed a letter of intent to sell the Canadian unit to General Accident Assurance of Canada.

Recovery in Europe's chemical sector fades

Poor first-quarter results and slack demand are to blame, writes **Antonia Sharpe**

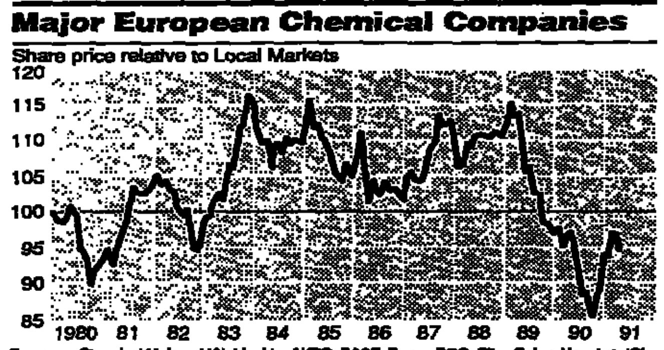
THERE HAS been some drama in the chemical industry of late, with Hanson taking a stake in ICI, while the "big three" German companies have attracted demand in the run-up to their dividend payments. Overall, however, the sector seems to have lost its recent fizz.

Deteriorating conditions in the petrochemical and plastics markets have interrupted the recovery this year in continental European chemical shares, and threaten to sentence the sector to a summer of underperformance, analysts warn.

Last November, many shares had fallen to their lowest level relative to their local markets since 1980 and were only prevented from declining further by their generous yields – the Dutch chemical company DSM, for example, was yielding nearly 10.5 per cent.

Since then, many chemical shares have outperformed their local markets as investors have piled back into what they regarded as a grossly oversold sector. The petrochemical industry managed to raise prices to cover the initially sharp increase in the cost of oil and naptha that resulted from the Gulf crisis.

Major European Chemical Companies



European Chemical Majors: L'Air Liquide, AKZO, BASF, Bayer, BOC, Ciba-Geigy, Hoechst, ICI
Source: Goldman Sachs analysis

The sector's recovery in the first four months of this year was helped by the rally in the dollar, the quick finish to the Gulf war and the consequent decline in oil prices, and expectations that the US recession was nearing an end. By April 25, BASF, which has the biggest exposure to bulk chemicals among the German chemical majors, had outpaced the DAX index by 8.3 per cent, while DSM, a purer petrochemical play, had risen 15.1 per cent against the Dutch CBS general index by April 8.

Both shares, along with the rest of the sector, have since retreated as the chemical companies have announced poor results for the first quarter.

It is apparent that the Gulf crisis created a false market for petrochemical and plastics products, and that underlying demand is slack. Falling oil and naphtha prices have led to a reduction in inventory levels, price erosion and declining profit margins. The market's fears have been confirmed by Mr Jürgen Struber, the chairman of BASF, who warned recently that a return to normal order levels for plastics was not anticipated before the end of this year.

According to Mr Tony Cox of Kleinwort Benson, the contract prices of major products have fallen by up to 42 per cent since the start of 1991, with a sharp decline occurring in recent weeks. He believes that bulk chemical prices and margins will continue to fall, with the pressure easing at the start of 1992 at the earliest as the balance between supply and demand is re-established.

Mr Charles Brown at Goldman Sachs is concerned that several chemical shares seem to have recovered too far, too soon. He fears that while there could be a recovery in the US and UK economies, demand will be sluggish in continental Europe. Furthermore, he forecasts that a flood of new capacity in the petrochemical industry and weak trading conditions could prevent a recovery in product prices until well into 1992.

The revival in chemical shares is unlikely to resume before the second quarter's results, which are expected to show further deterioration. However, the dividend yield should provide some downside support for share prices. Mr Cox notes that fiscal considerations should encourage BASF, for example, to maintain its dividend in 1991 by using its retained earnings amassed before 1990.

Mr Brown favours Akzo, the Dutch chemical company, as a recovery play. After cutting its dividend in 1990, the company should be able to rebuild its earnings, helped by cost-cutting measures, he says. Bayer, the German chemical major with the lowest exposure to bulk chemicals and an important healthcare division, is favoured by both analysts.

EUROPE

International bargain hunters spotted in Milan

THERE WAS A suggestion that international bargain-hunters were on the prowl in Europe again yesterday, and that Italian stocks were in their sights, *writes Our Markets Staff*.

MILAN rose on demand for Fiat, which inspired foreign buying of other blue chips. The Comit index added another 8.06 to 581.41 in volume estimated at higher than Wednesday's L140bn.

Fiat rose less than 1 per cent, L49 to L5,699 at the official close, on its maintained dividend and new share buy-back programme, but it drew attention to Italy's laggard status among European markets this year.

There were better gains later for Olivetti, up L140 at L3,640, and Ferruzzi Finanziaria, L131 better at L2,235. A foreign taste for telecoms was seen in Sirti and Stet, which put on L349 to L11,599, and L55 to L2,155, respectively.

Among banks, BNA rallied 7 per cent, or L480, to L7,330, on speculation that the financially troubled agricultural co-operative, Federconsorzi, would be forced to sell its 13 per cent BNA stake.

FRANKFURT saw the FAZ index 1.95 lower at 693.23 in midsession, but registered another 1991 high for the DAX, which closed 5.02 up at 1,652.71. Volume eased from DM11.4bn to DM10.8bn.

Dresdner's Mr Ruediger Eich said that the bank had recommended the market three or four weeks ago on the prospect of economic improvement in the second half of this year. This week's sudden gains, he said, might have been triggered by interest rate hopes, and President Bush's optimism about the US economy which is good news for German export prospects in 1992.

The renegotiation of Soviet homebuilding contracts helped constructions firm again, with Bilfinger & Berger up DM25 at DM935 and Holzmann DM35 at DM1,560. In carmakers, hopes that Daimler would ingest its Mercedes associate were considered an old story; it was a switch based on valuation criteria, said Mr Eich, which left Daimler flat at DM717.50 and Mercedes another DM9 better at DM586.50.

PARIS ended near its day's low on the last day of the monthly account, following a fall in bond prices. The CAC 40 index lost 17.42 to 1,813.71 as turnover rose to about FFr2.8bn from FFr2.15bn.

The day's most active stock was LVMH, the luxury goods firm, which closed FFr7 higher at FFr3,961 on volume of 53,460 shares worth about FFr207m. In earlier trading the stock reached a 12-month high of FFr4,018. The company denied rumours that it was planning a rights issue.

Havas, the media group, lost FFr12 to FFr486 after forecasting unchanged profits for 1991. Bon Marché, the retailer, was suspended at FFr824; after the market closed it announced a reorganisation involving its subsidiary, Conforama, which was suspended at FFr884.

HELSINKI rose 1.9 per cent on speculation that the markka is to be linked to the Ecu. The Hex index gained 19.9 to 1,059.2 in turnover up from FM18.2m to FM22.7m, of which FM9.2m was free shares.

BRUSSELS rose in busy dealings on the first day of the new trading account. The Bel20 index, however, finished 4.45 lower at 1,167.82 after several shares went ex dividend.

Solvay, the chemical company, continued to benefit from the news of its joint marketing plans with Upjohn of the US, rising another BFr200 to BFr13,300. Solvay also announced a joint venture with Kyowa Hakko Kogyo of Japan.

MADRID firmed in response to a fall in one-year Treasury bill rates. The general index added 0.94 to 285.63 in turnover of about Pta18bn after Wednesday's Pta17bn.

The banking sector was strong, with Santander up Pta130 at Pta5,650 and BBV rising Pta35 to Pta3,425 in active trading of 838,784 shares.

ZURICH inched up to a high for the year, the SBC general index closing 1.3 up at 625.9 in volume similar to Wednesday's SFr4.8m. Sandoz bearers, split into five, rose to SFr2,490 from an adjusted SFr2,420.

FT-SE Eurotrack 100 - May 23

Hourly changes

Open	10 am	11 am	Noon	1 pm	2 pm	3 pm	Close
1129.49	1129.14	1128.43	N/A	1130.81	1130.82	1132.68	1132.62

Day's High 1133.04 Day's Low 1127.68

May 22	May 21	May 20	May 17	May 16
1131.74	1123.75	1120.04‡	1118.61	1112.66

Base value 1000 (26/10/90) ‡ Indicative

ASIA PACIFIC

Bombay slips on widow's refusal

SHARE PRICES gyrated on the Bombay Stock Exchange (BSE) yesterday, after the assassination on Tuesday of Mr Rajiv Gandhi, the former prime minister, writes R.C. Murthy in Bombay.

The news that Mrs Sonia Gandhi, Rajiv's widow, had refused to lead the Congress party came at the close of trading. The 30-share index lost an early gain to end 5.65 down at 1,314.89, and share prices fell further after hours. The market will be shut today.

Trading had begun hesitantly after the market's closure on Wednesday, but statements by the International Monetary Fund and the World Bank, assuring continued support for India's economic restructuring, gave shares an early boost. The index, which had opened 25 points lower, advanced to a five-week high of 1,321.88 by midsession, before receding at the close.

Interest focused on five stocks, including ACC and Reliance Industries, whose chief executive is linked to the Congress party. Yesterday evening the BSE lifted cash margins to 20 per cent from 15 on sales and purchases, to moderate the swings. The other three stocks with raised margins were Tata Steel, Gujarat Ambuja and Grasim.

Earlier in the week, the market had been enthused by Monday's elections, the first of the three phases of the polls. The Congress party was expected to win nearly half of the Lok Sabha (lower house) seats, enabling it to form a government with the support of splinter groups. The other two phases, due yesterday and on Sunday, have been postponed until June 12 and 15.

Share values forged ahead on Tuesday, with the index gaining 36 points to 1,320, only to fall back in kerb trading on Wednesday following the assassination.

Arbitrage and broking campaign lift Nikkei

Tokyo

ARBITRAGE buying and efforts by Japanese brokerages helped the Nikkei average to rise yesterday for the first time in four days, writes Emiko Terazono in Tokyo.

The average closed 244.99 higher at 25,643.65, after a day's low of 25,350.83 and a high of 25,721.27. Arbitrage unwinding depressed the Nikkei in the morning, but strength in the futures markets triggered buying later in the day.

Volume increased from 260m to 370m shares, the heaviest level since May 1. Advances led declines by 598 to 335, with 175 issues unchanged. The Topix index gained 15.30 to 1,948.87, and in London trading the ISE/Nikkei 50 index firmed 1.34 to 1,448.47.

Cash positions on June arbitrage contracts at May 17 rose to a record Y1.17bn. Traders said that, while there was concern that arbitrage unwinding before the expiry of the June futures contract could depress the cash market, arbitrageurs had been rolling over into September contracts.

A sales campaign by the Japanese brokerages helped to lift volume, but traders said that once it was over, turnover would falter again. Hitachi Zosen climbed Y30 to Y675 and Nisshin Steel Y40 to Y781 on brokers' recommendations.

Cable and wire companies rose on strong earnings forecasts, with Fujikura advancing Y30 to Y1,100, Furukawa Y30 to Y839 and Mitsubishi Cable Y27 to Y1,020. Sharp falls in copper prices are expected to improve their profit margins.

Sony, which fell on Wednesday on earnings rumours, rallied Y260 to Y5,960. Its pre-tax profits, announced after the market had closed, showed a 16 per cent rise. Akai Electric put on Y50 to Y1,150 on hopes of an 85 per cent jump in pre-tax profits and rumours of speculative interest.

Morinaga Milk Industry was actively traded, rising Y22 to Y751. Rumours that it had developed an Aids drug attracted individual investors.

In Osaka, the OSE average added 26.82 at 28,149.37 on volume of 35m shares, up from 20m. New Japan Chemical moved ahead Y60 to Y1,230 on earnings news.

Sanyo Coca-Cola rose Y70 to Y2,540 on plans to redevelop plant sites in western Japan as shopping centres, and after its tie-up with a restaurant chain.

Roundup

SENTIMENT was mixed in the Pacific Basin with Hong Kong and Kuala Lumpur, in particular, showing a tendency to move hard and fast.

HONG KONG plunged and then rallied after the failure of the airport talks. The Hang Seng index recouped more than half of a 105-point morning drop to close 47.83 or 1.2 per cent off at 3,778.79, making a three-day loss of 3.5 per cent.

Turnover expanded from HK$1.32bn to HK$1.57bn. Properties took heavy losses, followed by utilities and the commercial and industrial sector.

KUALA LUMPUR accelerated Wednesday's gains, with the KLSE composite index rising 18.81 or 3.2 per cent to 611.57, its largest single-day gain since October.

Speculation that Malaysia's national retirement fund might soon be allowed to increase its equity holdings prompted further index-linked buying, and traders saw a continued inflow of foreign funds.

Telekom Malaysia, the biggest issue on the exchange, jumped M$1.05 or 11 per cent to M$11, principally because of a brokerage report suggesting that the telephone monopoly may not pay taxes in 1992.

SINGAPORE's Straits Times Industrial index, weighted towards blue chip Singapore companies, rose 7.41 to 1,532.44.

As in Malaysia, the increase in Singapore's weighting in the FT-Actuaries Pacific Basin (ex Japan) index generated speculation that equity funds linked to the index would raise their holdings in the two countries.

BANGKOK was another winner, the SET index gaining 8.65 to 800.73. AUSTRALIA's All Ordinaries index shed 9.4 to 1,432.0 on a drop in the Australian dollar and NEW ZEALAND ended a six-day rally with the Barclays index 14.76 lower at 1,540.26.

SOUTH AFRICA

INDUSTRIAL stocks held their gains in Johannesburg yesterday, as gold shares slipped on profit-taking and a fall in the bullion price. The industrial index hit another record of 3,584, up 2, while the all-gold index eased 17 to 1,183.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY MAY 22 1991 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY MAY 21 1991 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991 High	1991 Low	Year ago (approx)
Australia (72)	144.87	+0.3	124.41	128.38	129.66	124.30	+0.4	5.35	144.45	123.33	125.46	128.54	123.84	147.30	112.74	132.62
Austria (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2290)	142.68	-0.3	122.52	124.47	127.71	131.87	+0.0	2.62	143.05	122.13	124.25	127.29	131.83	149.01	129.28	147.01

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